Vulcabras Azaleia S.A.

Individual and consolidated financial statements
December 31, 2020
(A Free Translation of the original report in Portuguese as published in Brazil contain individual and consolidated financial statements prepared in accordance with accounting practices adopted in Brazil and IFRS)

KPDS 794256

Contents

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Independent auditors' report on the individual and consolidated financial statements

To the Shareholders of Vulcabras Azaleia S.A.

Jundiaí – SP

Opinion

We have examined the individual and consolidated financial statements of Vulcabras Azaleia S.A. ("Company"), identified as Parent Company and Consolidated, respectively, comprising the balance sheet as of December 31, 2020 and the related statements of income, comprehensive income, changes in equity and cash flows, for the year then ended, as well as the corresponding notes, comprising the significant accounting practices and other explanatory notes.

In our opinion, the aforementioned financial statements present fairly, in all material respects, the individual and consolidated financial position of Vulcabras Azaleia S.A as of December 31, 2020, the individual and consolidated performance of its operations and its individual and consolidated cash flows for the year then ended, in conformity with accounting practices adopted in Brazil and International Financial Reporting Standards - IFRS issued by the International Accounting Standards Board (IASB).

Basis for opinion

We conducted our audit in accordance with Brazilian and International Standards on Auditing. Our responsibilities, in conformity with these standards, are described in the following section denominated "Auditor's responsibilities for the audit of the individual and consolidated financial statements". We are independent in relation to the Company and its subsidiaries, in accordance with the relevant ethical principles provided for in the Accountant's Code of Professional Ethics and in professional standards issued by the Federal Accounting Council, and we comply with other ethical responsibilities according to these standards. We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

The key audit matters are those who, in our professional judgment, were the most significant in our audit of current year. These matters were addressed in the context of our audit of the individual and consolidated financial statements as a whole, and in forming our opinion thereon, and, therefore, we do not express a separate opinion on these matters.

Goodwill recoverable amount in business combinations	
See Notes 3.10, 15 and 16 to the individual and consolidated financial statements	
Key audit matters	**How our audit addressed this matter**
As disclosed in notes 3.10, 15 and 16, on December 31, 2020 the Company recorded the goodwill paid for expected future profitability in its consolidated intangible assets in the amount of R$ 198,214, arising from the acquisition of businesses. The Company carries out the impairment of goodwill test every year. This process is complex and involves a high level of subjectivity, and it is based on several assumptions, such as the determination of cash generating units, discount rates, projection of inflation, growth percentages, and profitability of business of the Company for the next years. These assumptions will be affected by the market conditions or future economic scenarios, which cannot be precisely estimated. We consider the annual impairment test of goodwill generated from business combinations as one of the key audit matters due to the high degree of subjectivity and complexity in the assumptions and calculations involved, as well as due to the impact that any changes in assumptions could have on the amounts recorded in the individual financial statements based on the impact on investments and on the adoption of the equity method and consolidated financial statements.	Our audit procedures included, among others, the evaluation, assisted by our corporate finance experts, of the model adopted to measure the recoverable value and assumptions, projections and methodologies adopted by the Company, specially those related to estimates of future sales, growth and discount rates used in discounted cash flows and the profit margin of cash generating unit to which goodwill was allocated. Evaluate the adequacy of the disclosures made by the Company on the assumptions used in the impairment calculation, especially those that had the most significant effect on its calculation. Our audit procedures also included assessing the reliability of the information produced by the entity, assessing the flow and design of internal controls. As a result of evidence from the procedures summarized above, we consider that the balance of intangible assets related to goodwill generated in business combination is acceptable in the context of individual financial statements due to possible effects in the balance of investments and equity in net income of subsidiaries and consolidated financial statements taken as a whole for the year ended December 31, 2020.

Other matters - Statements of added value

Individual and consolidated statements of added value for the year ended December 31, 2020, prepared under responsibility of Company's management, and presented as supplementary information for IFRS purposes, were submitted to audit procedures carried out together with the audit of Company’s financial statements. In order to form our opinion, we evaluated whether these statements are reconciled with the financial statements and accounting records, as applicable, and whether their form and content are in accordance with the criteria defined in CPC 09 Technical Pronouncement - Statement of Added Value. In our opinion, these statements of added value were prepared, in all material respects, in accordance with the criteria defined in this Technical Pronouncement and are consistent in relation to the individual and consolidated financial statements taken as a whole.

Other information accompanying individual and consolidated financial statements and the auditors' report

The Company's management is responsible for such other information that comprises the Management Report.

Our opinion on the individual and consolidated financial statements does not include the Management Report and we do not express any form of audit conclusion on such report.

Regarding the audit of individual and consolidated financial statements, our responsibility is to read the Management Report and, in doing so, consider whether this report is, in a material way, inconsistent with the financial statements or with our knowledge gained in the audit or otherwise appears to be materially misstated. If, based on the works performed, we conclude that there is a material misstatement in the Management Report, we are required to disclose this fact. We have nothing to report in this regard.

Responsibilities of management and governance for the individual and consolidated financial statements

Management is responsible for the preparation and fair presentation of the individual and consolidated financial statements in accordance with Accounting Practices Adopted in Brazil and with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In the preparation of individual and consolidated financial statements, management is responsible for assessing the ability of the Company to continue as a going concern, disclosing, where applicable, the matters relating to its going concern and the use of this basis of accounting in preparing the financial statements, unless management intends to wind-up the Company and its subsidiaries or cease its operations, or has no realistic alternative to avoid the closure of operations.

Those charged with governance of the Company and its subsidiaries are the people responsible for overseeing the process of preparation of the financial statements.

Auditors' Responsibilities for the Audit of the Individual and Consolidated Financial Statements

Our purposes are to obtain reasonable assurance that the individual and consolidated financial statements, taken as a whole, are free from material misstatement, whether caused by fraud or error, and to issue audit report containing our opinion. Reasonable assurance means a high level of security, but not a guarantee that an audit conducted in accordance with Brazilian and international auditing standards always detects any existing material misstatements. Misstatements may be due to fraud or error and are considered material when, individually or taken as a whole, can influence, within a reasonable perspective, the economic decisions of users taken based on these financial statements.

As part of the audit conducted in accordance with Brazilian and international auditing standards, we exercise professional judgment and maintain our professional skepticism throughout the audit. We also:

– Identify and assess the risks of material misstatement of the parent company and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement due to fraud is higher than due to error, since a fraud can involve the act of circumventing internal controls, collusion, falsification, omission or intentional misrepresentations.

– Obtain an understanding of the internal controls relevant to the audit to plan the audit procedures appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal controls of the Company and its subsidiaries.

– Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

– We conclude on the appropriateness of the use of the going concern accounting basis by management, and based on the audit evidence obtained, whether there is significant uncertainty in relation to events or conditions that may cast significant doubt on the ability of the Company and its subsidiaries to continue as a going concern. Our conclusions are based on audit evidence obtained up to the date of our report. However, future events or conditions may lead the Company and its subsidiaries to no longer remain as a going concern.

– Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the parent company and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

– Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the parent company and consolidated financial statements. We are responsible for directing, supervising and carrying out the group's audit and, therefore, for the audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that we identified during our audit.

We also provide to those responsible for governance a statement that we fulfilled the material ethical requirements, including the applicable independence requirements, and report all the possible relationships or issues that could considerably affect our independence, including, when applicable, the respective disclaimers.

Out of matters that were communicated to people responsible for governance, we determined those that were considered as the most significant in the audit of financial statements for current year and that, accordingly, comprise the main audit matters. We describe these issues in our audit report, unless a law or regulation has prohibited the public disclosure of the issue, or when, under extremely rare circumstances, we determine that the issue shall not be reported in our report, because the adverse consequences from such report may, from a reasonable perspective, exceed the benefits from the report for public interest.

Fortaleza, March 09, 2021

KPMG Auditores Independentes
CRC SP-014428/O-6 S-CE

Original in Portuguese signed by
Marcelo Pereira Gonçalves
Accountant CRC 1SP220026/O-3

Vulcabras Azaleia S.A.

(Publicly-held company)

Balance sheets

December 31, 2020 and 2019

(In thousands of Reais)

		Consolidated		Parent company	
Assets	**Note**	**12/31/2020**	**12/31/2019**	**12/31/2020**	**12/31/2019**
Cash and cash equivalents	4	158,552	62,164	18	3,606
Interest earning bank deposits	5	80,949	-	80,949	-
Trade accounts receivable	6	574,104	448,377	-	-
Inventories	7	256,924	241,238	-	-
Recoverable taxes	8	18,330	14,723	563	631
Income tax and social contribution	9a	5,108	4,580	154	353
Amounts receivable from disposal of operation	1.1a	3,440	-	-	-
Other accounts receivable		13,478	23,150	736	1,266
Total current assets		**1,110,885**	**794,232**	**82,420**	**5,856**
Interest earning bank deposits	5	9,594	2,823	2	2
Recoverable taxes	8	6,787	7,744	1,805	1,794
Deferred income tax and social contribution	9b	1,359	330	-	-
Judicial deposits	10	15,080	17,952	543	539
Loans with related parties		-	-	120,602	-
Amounts receivable from disposal of operation	1.1.a	5,160	-	-	-
Assets for sale		194	194	-	-
Other accounts receivable		2,702	2,902	1,537	1,589
Long-term assets		**40,876**	**31,945**	**124,489**	**3,924**
Investments	12	59,999	62,046	1,115,038	1,076,837
Investment property	13	2,121	2,530	2,115	2,522
Right-of-use	19	15,145	15,845	-	-
Property, plant and equipment	14	241,311	235,120	160	161
Intangible assets	15	208,917	213,440	111	111
		527,493	**528,981**	**1,117,424**	**1,079,631**
Total non-current assets		**568,369**	**560,926**	**1,241,913**	**1,083,555**
Total assets		**1,679,254**	**1,355,158**	**1,324,333**	**1,089,411**

		Consolidated		Parent company	
Liabilities	**Note**	**12/31/2020**	**12/31/2019**	**12/31/2020**	**12/31/2019**
Suppliers	17	62,457	40,993	289	1,088
Loans and financing	18	127,894	3,264	-	-
Taxes payable		11,938	8,402	97	83
Salaries and vacations payable		30,105	41,394	-	17
Provisions	20	22,021	18,326	765	405
Lease liabilities	19	8,343	7,798	-	-
Commissions payable		16,121	13,536	-	-
Other accounts payable		26,296	15,484	217	132
Total current liabilities		**305,175**	**149,197**	**1,368**	**1,725**
Loans and financing	18	183,735	39,789	-	-
Loans with related parties	11	17,632	16,930	197,763	-
Provisions	20	34,542	38,183	-	453
Deferred taxes on revaluation of property, plant and equipment	9b	2,406	2,850	-	-
Lease liabilities	19	10,187	8,047	-	-
Taxes payable		-	12,265	-	-
Provision for loss with investment	12	-	-	124	95
Other accounts payable		183	469	-	-
Total non-current liabilities		**248,685**	**118,533**	**197,887**	**548**
Equity					
Capital	21	1,106,717	1,106,717	1,106,717	1,106,717
Revaluation reserves	21	4,670	5,532	4,670	5,532
Capital reserves	21	3,034	1,517	3,034	1,517
Equity valuation adjustments	21	21,114	16,281	21,114	16,281
Accumulated losses		(10,457)	(42,909)	(10,457)	(42,909)
Equity attributable to controlling shareholders		**1,125,078**	**1,087,138**	**1,125,078**	**1,087,138**
Non-controlling interest		**316**	**290**	**-**	**-**
Total equity		**1,125,394**	**1,087,428**	**1,125,078**	**1,087,138**
Total liabilities		**553,860**	**267,730**	**199,255**	**2,273**
Total liabilities and equity		**1,679,254**	**1,355,158**	**1,324,333**	**1,089,411**

See the accompanying notes to the individual and consolidated financial statements.

Vulcabras Azaleia S.A.

(Publicly-held company)

Statements of profit or loss

December 31, 2020 and 2019

(In thousands of Reais, except net income per share)

		Consolidated		Parent company	
	Note	**12/31/2020**	**12/31/2019**	**12/31/2020**	**12/31/2019**
Net sales	22	1,179,227	1,359,985	-	-
Cost of sales and resales	23	(831,045)	(888,184)	-	-
Gross income		**348,182**	**471,801**	**-**	**-**
Sales expenses	24	(190,482)	(215,831)	-	-
Expected losses for allowance for doubtful accounts	24	(9,593)	(9,013)	-	-
Administrative expenses	25	(110,561)	(109,630)	(7,262)	(6,427)
Other operating revenues (expenses), net	26	797	4,145	5,434	16,689
Equity in net income of subsidiaries	12b	(2,047)	292	33,319	135,389
Income (loss) before net financial expenses and revenues and taxes		**36,296**	**141,764**	**31,491**	**145,651**
Financial revenues		46,345	33,552	871	207
Financial expenses		(46,406)	(28,420)	(772)	(341)
Net financial revenues and expenses	27	**(61)**	**5,132**	**99**	**(134)**
Income (loss) before income taxes		**36,235**	**146,896**	**31,590**	**145,517**
Deferred income tax and social contribution	9b	(4,681)	(3,816)	-	(2,452)
Net income for the year		**31,554**	**143,080**	**31,590**	**143,065**
Profit or loss attributable to:					
Controlling shareholders		31,590	143,065	31,590	143,065
Non-controlling shareholders		(36)	15	-	-
Net income for the year		**31,554**	**143,080**	**31,590**	**143,065**
Earnings per share					
Earnings per common share - basic		0.1285	0.5821		
Earnings per common share - diluted		0.1274	0.5788		
Number of shares at the end of the year					
Outstanding common shares		245,756,346	245,756,346		
Outstanding common shares with a dilution effect		248,016,346	247,196,346		

See the accompanying notes to the individual and consolidated financial statements.

Vulcabras Azaleia S.A.

(Publicly-held company)

Statements of comprehensive income

December 31, 2020 and 2019

(In thousands of Reais)

	Consolidated		Parent company	
	12/31/2020	**12/31/2019**	**12/31/2020**	**12/31/2019**
Income (loss) for the year	31,554	143,080	31,590	143,065
Other comprehensive income - OCI	4,833	2,035	4,833	2,035
Items that can be subsequently reclassified to income (loss)				
Exchange differences from translation of foreign operations	4,648	2,033	4,648	2,033
Financial assets at fair value through other comprehensive income (FVTOCI)	185	2	185	2
Total comprehensive income	36,387	145,115	36,423	145,100
Comprehensive income attributable to:				
Controlling shareholders	36,423	145,100	36,423	145,100
Non-controlling shareholders	(36)	15	-	-

See the accompanying notes to the individual and consolidated financial statements.

Vulcabras Azaleia S.A.
(Publicly-held company)

Statement of changes in equity - Parent company and Consolidated

December 31, 2020 and 2019

(In thousands of Reais)

	Parent company							
	Capital	**Reflected revaluation reserve in subsidiaries**	**Capital reserve**	**Other comprehensive income**	**Accumulated losses**	**Total**	**Non-controlling interest**	**Total equity**
Balances at January 01, 2019	**1,106,717**	**6,401**	**641**	**1,990**	**(174,587)**	**941,162**	**300**	**941,462**
Write-off of equity valuation adjustment for closing of the investee	-	-	-	12,256	(12,256)	-	-	-
Realization of revaluation reserve in subsidiary, net of taxes	-	(869)	-	-	869	-	-	-
Transaction with share-based payments	-	-	876	-	-	876	-	876
Other comprehensive income								
Exchange differences from translation of foreign operations	-	-	-	2,033	-	2,033	(25)	2,008
Financial assets at fair value through other comprehensive income (FVTOCI)				2		2	-	2
Net income for the year	-	-	-	-	143,065	143,065	15	143,080
Balances at December 31, 2019	**1,106,717**	**5,532**	**1,517**	**16,281**	**(42,909)**	**1,087,138**	**290**	**1,087,428**
Balances at January 01, 2020	**1,106,717**	**5,532**	**1,517**	**16,281**	**(42,909)**	**1,087,138**	**290**	**1,087,428**
Realization of revaluation reserve in subsidiary, net of taxes	-	(862)	-	-	862	-	-	-
Transaction with share-based payments	-	-	1,517	-	-	1,517	-	1,517
Other comprehensive income								
Exchange differences from translation of foreign operations	-	-	-	4,648	-	4,648	62	4,710
Financial assets at fair value through other comprehensive income (FVTOCI)	-	-		185	-	185	-	185
Net income for the year	-	-	-	-	31,590	31,590	(36)	31,554
Balances at December 31, 2020	**1,106,717**	**4,670**	**3,034**	**21,114**	**(10,457)**	**1,125,078**	**316**	**1,125,394**

See the accompanying notes to the individual and consolidated financial statements.

Vulcabras Azaleia S.A.

(Publicly-held company)

Statements of cash flows – Indirect method

December 31, 2020 and 2019

(In thousands of Reais)

	Note	Consolidated		Parent company	
		12/31/2020	**12/31/2019**	**12/31/2020**	**12/31/2019**
Cash flow from operating activities					
Net income for the year		31,554	143,080	31,590	143,065
Adjustments for:					
Depreciation and amortization		75,948	80,681	408	418
Provision for impairment loss in inventory	7b	(91)	(11,904)	-	-
Interest on provisioned leases	19	2,835	-	-	-
Net value of written off tangible and intangible assets		11,492	9,285	-	-
Yields from financial investments		(776)	(124)	(27)	-
Provision for contingencies	20	7,927	13,039	38	562
Equity in net income of subsidiaries	12	2,047	(292)	(33,319)	(135,389)
Transaction with share-based payments	21c	1,517	876	1,517	876
Expected losses for allowance for doubtful accounts	6	9,593	9,013	-	-
Effect from write-off of investments		-	-	-	8
Gain or loss on lease termination	19	(61)	-	-	-
Loss in the sale of subsidiary	1.1	7,641	-	-	-
Financial charges and exchange-rate change recognized in income (loss)		14,846	4,463	-	-
Deferred taxes		(1,473)	(477)	-	-
Non-controlling interest		36	(15)	-	-
		163,035	**247,625**	**207**	**9,540**
Changes in assets and liabilities					
Interest earning bank deposits		-	(189)	-	-
Trade accounts receivable		(135,741)	10,114	-	-
Inventories		(28,344)	141	-	-
Recoverable taxes		(8,102)	2,255	256	(350)
Other accounts receivable		9,364	(9,965)	582	(1,239)
Judicial deposits		465	(4,618)	(4)	191
Suppliers		19,894	(17,047)	(799)	668
Commissions payable		2,585	45	-	-
Taxes payable		-	(9,931)	-	-
Taxes and social contributions		8,410	4,487	14	2,641
Salaries and vacations payable		(9,986)	4,842	(17)	-
Other accounts payable		11,002	(9,581)	85	(15)
Provisions made		(5,432)	(9,492)	(131)	(644)
Cash used in operating activities		**(135,885)**	**(38,939)**	**(14)**	**1,252**
Interest paid	18d	(5,309)	(2,218)	-	-
Payment of lease interest	19	(1,760)	-	-	-
Income taxes paid		(3,617)	(2,657)	-	(2,657)
		(10,686)	**(4,875)**	**-**	**(2,657)**
Net cash flow from operating activities		**16,464**	**203,811**	**193**	**8,135**
Cash flow from investment activities					
Acquisition of property, plant and equipment (*)	14	(82,305)	(115,958)	-	-
Interest earning bank deposits		(86,961)	-	(80,922)	-
Fund from the disposal of subsidiary, net of cash	1.1	(2,754)	-	-	-
Payment for acquisition of subsidiary		-	(61,627)	-	-
Funds from disposal of property, plant and equipment		949	946	-	-
Purchase of intangible	15	(2,630)	(3,439)	-	-
Increase in investee's interest		-	-	(20)	(26)
Net cash flow used in investment activities		**(173,701)**	**(180,078)**	**(80,942)**	**(26)**
Cash flow from financing activities					
Loans obtained - Principal	18d	285,779	4,793	-	-
Payment of loans obtained - Principal	18d	(22,378)	(22,810)	-	-
Receipt (payments) of loans with related parties	18d	702	671	77,161	(5,419)
Payment of lease liabilities	19	(9,794)	(12,572)	-	-
Net cash flow from (used in) financing activities		**254,309**	**(29,918)**	**77,161**	**(5,419)**
Increase (decrease) in cash and cash equivalents		**97,072**	**(6,185)**	**(3,588)**	**2,690**
Cash and cash equivalents at the beginning of the year		62,164	68,626	3,606	916
Effect of changes in exchange rate on the cash and cash equivalents		(684)	(277)	-	-
Cash and cash equivalents at the end of year		158,552	62,164	18	3,606
Increase (decrease) in cash and cash equivalents		**97,072**	**(6,185)**	**(3,588)**	**2,690**

See the accompanying notes to the individual and consolidated financial statements.

(*) The amount of R$ 2,776 regarding unsettled acquisitions of property, plant and equipment in suppliers did not have a cash effect for the year December 31, 2020.

Vulcabras Azaleia S.A.

(Publicly-held company)

Statements of added value

December 31, 2020 and 2019

(In thousands of Reais)

	Consolidated		Parent company	
	12/31/2020	**12/31/2019**	**12/31/2020**	**12/31/2019**
Revenues	**1,341,725**	**1,557,664**	**1,178**	**13,298**
Sale of goods, products and services	1,338,711	1,546,328	-	-
Other revenues and expenses	12,607	20,349	1,178	13,298
Expected losses for allowance for doubtful accounts	(9,593)	(9,013)	-	-
Inputs acquired from third parties	**(663,173)**	**(691,256)**	**(5,396)**	**(5,031)**
Raw materials used	(347,752)	(387,077)	-	-
Cost of products and goods sold and services rendered	(100,629)	(109,490)	-	-
Materials, energy, outsourced services and other	(214,766)	(194,655)	(5,396)	(5,031)
Loss/recovery of asset values	(26)	(34)	-	-
Gross added value	**678,552**	**866,408**	**(4,218)**	**8,267**
Retentions	**(75,948)**	**(80,681)**	**(408)**	**(418)**
Depreciation and amortization	(75,948)	(80,681)	(408)	(418)
Net added value generated by the Company	**602,604**	**785,727**	**(4,626)**	**7,849**
Added value received as transfer	**48,408**	**37,143**	**39,211**	**140,362**
Equity in net income of subsidiaries	(2,047)	292	33,319	135,389
Financial revenues	46,345	33,552	872	207
Other	4,110	3,299	5,020	4,766
Total added value payable	**651,012**	**822,870**	**34,585**	**148,211**
Distribution of added value	**651,012**	**822,870**	**34,585**	**148,211**
Personnel	**394,501**	**442,195**	**829**	**884**
Direct remuneration	265,467	302,938	-	-
Benefits	52,118	54,627	-	-
FGTS	22,241	24,224	-	-
Sales commissions	43,698	49,693	-	-
Directors’ fees	10,977	10,713	829	884
Taxes, duties and contributions	**185,562**	**215,386**	**1,399**	**3,921**
Federal	154,269	170,413	1,084	3,921
State	30,303	44,359	-	-
Municipal	990	614	315	-
Third-party capital remuneration	**39,395**	**22,209**	**767**	**341**
Interest	38,474	20,530	765	340
Rentals	919	1,679	-	-
Other	2	-	2	1
Remuneration of own capital	**31,554**	**143,080**	**31,590**	**143,065**
Retained earnings	31,590	143,065	31,590	143,065
Non-controlling interest	(36)	15	-	-

See the accompanying notes to the individual and consolidated financial statements.

Notes to the individual and consolidated financial statements

(In thousands of Reais - R$, unless otherwise stated)

1 Operations

Vulcabras Azaleia S.A. ("Company") is a publicly-held company headquartered in Jundiaí - State of São Paulo (SP), Brazil. The manufacturing operations are concentrated on subsidiaries in the Northeast region, stated of Ceará and Bahia. The Company has also investments in other companies, and is engaged in trading and production in the domestic and foreign markets of apparel and accessories products, particularly sportswear, male, female and professional footwear, through its direct and indirect subsidiaries:

Vulcabras Azaleia CE, Calçados e Artigos Esportivos S.A. which has the following subsidiaries:

- Vulcabras Azaleia SP, Comércio de Artigos Esportivos Ltda.;
- Vulcabras Distribuidora de Artigos Esportivos Ltda.;
- Distribuidora de Calçados e Artigos Esportivos Cruzeiro do Sul Ltda.;

Vulcabras Azaleia RS, Calçados e Artigos Esportivos S.A. which has the following subsidiaries:

- Vulcabras Azaleia BA, Calçados e Artigos Esportivos S.A.;
- Vulcabras Azaleia SE, Calçados e Artigos Esportivos Ltda.;
- Calzados Azaléia Colômbia Ltda; and
- Calzados Azaléia Peru S.A.

The brands managed by the companies include:

- Own brands: Azaléia, Dijean, Olk, Olympikus, Opanka and Vulcabras.
- Third parties' brands: Under Armour

1.1 Relevant events during the year 2020

1.1.1 Venda da Vulcabras Azaleia SE, Calçados e Artigos Esportivos Ltda.

On March 31, 2020, the Company concluded the sale of the indirect subsidiary Vulcabras Azaleia SE, Calçados e Artigos Esportivos Ltda. as provided for in the Quota Purchase and Sale Agreement and Other Covenants entered into January 7, 2020 between its subsidiaries Vulcabras Azaleia RS, Calçados e Artigos Esportivos S.A., Vulcabras Azaleia BA, Calçados e Artigos Esportivos S.A. and Dok Participações Societárias Ltda.

a. Consideration received

The sale price to be received in local currency for all quota transfers corresponded to the value of the entity's adjusted equity at the closing date.

The disposal price was initially R$ 41,493.

On December 9, 2020, there was a third amendment to the purchase and sale agreement entered into on January 7, 2020, which reduced the amount of the inventory portion from R$ 12,453 to R$ 7,168. Thus, the acquisition price was R$ 36,208. With said amendment, the receipt schedule was as follows:

- R$ 26,140 in cash through the assignment of receivables rights from the SE operation;
- R$ 100 in cash;
- R$ 1,368 paid as of December 09, 2020;
- R$ 8,600 in ten installments up to June 2023.

b. Assets transferred

All assets and liabilities transferred on March 31, 2020, based on Management's best judgment and estimates are listed below:

In thousands of reais	**R$**
Cash (*)	4,222
Current assets (- cash)	44,012
Non-current assets	16,255
Current liabilities	(5,997)
Non-current liabilities	(14,643)
Equity	**43,849**
Consideration received	**36,208**
Income (loss) from operation	**(7,641)**

The losses incurred on the sale of Vulcabras Azaleia SE, in the amount of R$ 7,641, are disclosed in Note 26.

(*) The amounts received from the transaction were presented net of the cash value of the subsidiary sold.

1.1.2 Impacts of Covid-19 (coronavirus)

The Company's Management has been monitoring developments related to the COVID-19 pandemic, thoroughly observing the guidelines of government authorities and measuring the possible impacts on its businesses. Even in the face of this crisis scenario, the Company does not foresee any going concern risk, nor any risk to the accounting estimates and judgments made.

The Company has been adopting several measures aimed at preserving the health of its employees, clients, suppliers and the community, and where following measures have been implemented:

(i) Establishment of a Crisis Committee for the management of action plans to minimize the impacts of COVID-19. Subsequently, with the resumption of activities and businesses, this work group started being called “Opportunities Committee”;

(ii) Containment of personnel expenses: Initially, all productive activities were paralyzed, with the granting of collective vacations for the period from March 20 to April 26, 2020. Although partially, the operational resumption occurred as of April 27, 2020. The Company joined the Provisional Measure (PM) No. 936/2020, reducing the working hours and salaries of employees and suspending the contract with others, according to the provisions established by the PM itself. The Itapetinga-Bahia unit resumed its activities as of April 27, 2020, but continued with a reduction in working hours and wages of 70% up to June 25, 2020. At the Parobé-RS, Jundiaí-SP and São Paulo-SP units, the resumption occurred as of May 4, 2020, with a 25% reduction in hours and wages. In the Horizonte-Ceará unit, in compliance with State government decrees, production was only resumed as of June 1, 2020, also partially, and continued with a reduction in working hours and wages of 70% until June 25, 2020. As of June 26, 2020, the Bahia and Ceará units resumed their operations at full capacity;

(iii) Review of its investment plans for 2020;

(iv) Strengthening of the cash position through funding from bank credit facilities. In the period from March to December 2020, the Company raised approximately R$ 285 million in loans and financing.

Also, the Company, based on CVM/SNC Circular Letters No. 02, 03/2020 and 01/2021, analyzed the main risks and uncertainties arising from Covid-19 regarding its individual and consolidated financial statements. We list the main analyzes performed below:

- **Cash and cash equivalents:** The Company does not estimate any relevant risks, as the amounts continue to be held in prime banks (see note 29), with immediate liquidity and in investments with fixed rates.

- **Inventories:** The Company’s accounting policy is to record and present its inventory at the lower value between the acquisition average cost and net realizable value. This analysis was carried out on the base date and the balance presented in Note 7.

Aiming to better reflect the impacts of the COVID-19 pandemic on the Company’s results, the relative industrial costs of labor and indirect manufacturing costs were not appropriated to the products due to the stoppage or reduction in the workload at the plants, in the amount of R$ 36.4 million, being transferred to Indirect Cost, not allocated as CPC 16.38, see Note 23.

- **Accounts receivable:** The Company maintains an ongoing analysis of the changes in accounts receivable so that, if necessary, it complements the provision for expected loss. Considering the capillarity of sales distribution and the Company's credit policy, there is no concentration of clients in sales or in the receivables portfolio. At the peak of the COVID-19 pandemic, the Company, understanding the consequences of the crisis, decided for an automatic extension of all trade notes maturing between 04/01/2020 and 04/20/2020 for 28 days. The Company's policy of measuring losses with clients is described in note 6c.

- **Loans and financing:** Since the first impacts of the COVID-19 pandemic, the Company has maintained its financial discipline and sought to reinforce its cash with contributions made through pre-approved credit facilities, prioritizing incentivized operations with extended terms.

- The most relevant intangible assets, susceptible to the effects of the COVID-19 crisis, are as follows: the goodwill of one Under Armor store and the goodwill paid on the acquisition of equity interest. These two assets are tested on an annual basis, either in comparison with the current realization values, in the case of the goodwill, or in the expectation of future profitability of the operations acquired, in the case of goodwill.

  A provision for impairment is already recognized for goodwill. Therefore, the Company does not believe that there is a need for a new adjustment in value.

  For the goodwill paid on the acquisition of ownership interest, although the effects of COVID-19 may adversely affect the Company's future results, there is enough surplus cash to support the fluctuation. In the last analysis of the recoverable amount of goodwill due to expected future results, arising from business combination processes, carried out on December 31, 2020, obtained an estimated recoverable amount higher than its book value. It is worth highlighting that the new revenue and net income projections as of the year 2021 consider the entry of the operation with the Mizuno brand and the exit of Azaleia. When comparing the projected revenue for the last comparable year (2029) regarding the 2019 and 2020 projections, the Company observed that the growth is mostly justified by the increase caused by the exchange of Azaleia's operations by Mizuno's operations. Furthermore, to determine the Compound Annual Growth Rate (CAGR), the Company always takes data from the year prior to the projected period as a basis. Unfortunately, due to the events that occurred in 2020 in face of the COVID-19 pandemic, both revenue and net income were much lower than those presented in 2019 and, consequently, inflated the growth rates of the following years (see note 16).

- For the amount recognized in the right-of-use assets, which is linked to the lease agreements for properties destined mainly to the retail stores of the Company's brands operated with restrictions on opening and business hours during a good part of the year 2020, it is premature to anticipate any loss, as the Company intends to resume normal operations as soon as it is fully cleared by the appropriate regulatory bodies.

  In July, the Company resumed operating its plants at full available capacity, continuing this way throughout the subsequent months of the year.

  It is expected that the effects of COVID-19 will still be felt for many months to come, but the Management believes that the greatest impacts have been those occurring from April to June.

In the face of this situation, the Company is confident in its solidity, knowing that there are still many challenges ahead regarding consumption and the recovery of the macroeconomic scenario. Although it is still very difficult to predict what will happen, the Company is confident that the strength of its brands, coupled with the flexibility of its business model, will offer the competitive differential that will lead it to overcome this crisis quickly.

1.1.3 Mizuno Operation

On September 21, the Company announced that its subsidiaries Vulcabras Azaleia – CE, Calçados e Artigos Esportivos S.A. and Vulcabras Distribuidora de Artigos Esportivos Ltda. ("Subsidiaries"), entered into a Purchase and Sale Agreement with ALPARGATAS S.A., by which they undertake to take over the operations of the Mizuno brand in Brazil and to acquire certain assets, consisting mainly of inventory and property, plant and equipment, at the value of R$ 32,500 to be adjusted by the amount of working capital, which will be paid as follows: a) R$ 10,000 until the closing of the Transaction, and b) the remaining amount within 5 business days after the final price is determined.

As a condition to the closing of the operation described above, the subsidiaries will enter into an exclusive Licensing, Distribution and Marketing agreement for products of the "Mizuno" brand ("Master Distributor and License Agreement") with Mizuno Kabushiki Kaisha (MIZUNO CORPORATION). Through this agreement, which will give rise to the payment of royalties to Mizuno Corporation, the Subsidiaries will be able to (i) develop and produce "Mizuno" brand products, including footwear, clothing and accessories, (ii) distribute "Mizuno" brand products in the national territory ", (iii) trade "Mizuno" brand products directly to the consumer, through its own stores and/or through the electronic sales channel (www.mizuno.com.br), for a period over 10 years.

The operation will take place in two phases:

- In the first phase, the Company, through its subsidiaries Vulcabras Azaleia – CE, Calçados e Artigos Esportivos S.A. and Vulcabras Distribuidora de Artigos Esportivos Ltda. will assume the operations of retail sales of the Mizuno brand in Brazil for a period of 12 years, upon payment of royalties to Mizuno, calculated on the revenues from said sales.

- In the second phase, scheduled to take place on March 31, 2021, the subsidiaries will also take over the operations of e-commerce and Mizuno stores in Brazil.

Mizuno is a brand with a worldwide presence, with strong recognition in the running category, with a broad portfolio of high performance products for athletes of all levels. Within Vulcabras' strategy, Mizuno products will complement the Company's product portfolio, positioning itself at the top of the price pyramid, reaching specific audiences that other brands cannot.

1.1.4 Azaleia brand licensing

On September 24, 2020, the Company announced that the Board of Directors approved, with the abstention of the members of the controlling group, the licensing of the "Azaleia" brand by the subsidiary Vulcabras Azaleia – RS, Calçados e Artigos Esportivos S.A. to Grendene S.A. (related party – "Grendene"), for the production and sale of women's shoes in general in Brazil and in any other country worldwide, except Peru, Chile and Colombia ("Territory"), for a period of 3 years, starting from January 01, 2021 to December 31, 2023, which can be renewed for further 3 years.

With the licensing of the "Azaleia" brand, Grendene will start using this brand in the products to be produced and marketed by it, including the creation of designs for them. There is no solidarity between the Company and Grendene regarding their respective activities and obligations towards any third parties.

The Company's remuneration for the license to use the brand will be paid by Grendene based on a percentage of the products' monthly net operating revenues (royalties), under fair conditions in accordance with the standards currently practiced by the market and by the Company with other licensors.

1.1.5 Dijean brand assignment

On December 15, 2020, the Company concluded the sale of the brand Dijean, as provided for in the Brand Purchase and Sale Agreement and Other Covenants entered into on this date, between its subsidiary Vulcabras Azaleia RS, Calçados e Artigos Esportivos S.A. and Dok Participações Societárias Ltda.

a. Consideration received

In return for the assignment and transfer of brands, the Company will receive the following amounts ("Price of acquisition"):

- R$ 1,000 in cash;
- 1% of the net revenue calculated, resulting from the sale of products or services involving the brand as a payment until December 15, 2120.

Transferred assets are disclosed in Note 15.

1.2 List of subsidiaries

The consolidated financial statements include the information of the Company and its following direct and indirect subsidiaries, with the following percentage interest on the balance sheet date:

		% Direct interest		% Indirect interest		% Total interest	
	Country	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Vulcabras Azaleia CE, Calçados e Artigos Esportivos S.A.	Brazil	99.99	99.99	-	-	99.99	99.99
Vulcabras Azaleia SP, Comércio de Artigos Esportivos Ltda.	Brazil	-	-	100	100	100	100
Vulcabras Distribuidora de Artigos Esportivos Ltda.	Brazil	0.22	0.23	99.78	99.77	100	100
Distribuidora de Calçados e Artigos Esportivos Cruzeiro do Sul Ltda.	Brazil	-	-	100	100	100	100
Globalcyr S.A.	Uruguay	1.55	1.55	98.45	98.45	100	100
Vulcabras Azaleia RS, Calçados e Artigos Esportivos S.A. (*)	Brazil	-	-	-	100	-	100
Vulcabras Azaleia BA, Calçados e Artigos Esportivos S.A.	Brazil	-	-	99.99	99.99	99.99	99.99
Vulcabras Azaleia SE, Calçados e Artigos Esportivos Ltda. (*)	Brazil	-	-	-	100	-	100
Calzados Azaleia de Colômbia Ltda.	Colombia	-	-	100	100	100	100
Calzados Azaleia Peru S.A.	Peru	-	-	99.11	99.11	99.11	99.11

(*) In March 2020, the sale of the subsidiary Vulcabras Azaleia SE, Calçados e Artigos Esportivos Ltda. was completed, as commented in Note 1.1. Moreover, the merger of Vulcabras Azaleia RS, Calçados e Artigos Esportivos S.A. by the subsidiary Vulcabras Azaleia CE, Calçados e Artigos Esportivos S.A. was approved on December 18, 2020.

a. Main characteristics of subsidiaries included in consolidation

Vulcabras Azaleia CE, Calçados e Artigos Esportivos S.A.
Vulcabras Azaleia CE, Calçados e Artigos Esportivos S.A. is the company responsible for the manufacture and development of sports shoes. It started its activities with headquarters in the city of Horizonte, State of Ceará, engaged in the production, sale, import and export in general of shoes and sport gear.

Vulcabras Azaleia SP, Comércio de Artigos Esportivos Ltda.
Vulcabras Azaleia SP, Comércio de Artigos Esportivos Ltda. is engaged in the trading and distribution of footwear, sports apparel and accessories. The Company started its operations on July 25, 2013, headquartered in the city of Jundiaí, State of São Paulo, under the corporate name of UA BRASIL COMÉRCIO E DISTRIBUIÇÃO DE ARTIGOS ESPORTIVOS LTDA., as an affiliated company of Under Armour, Inc. It was acquired by Vulcabras Azaleia CE on October 1, 2018.

Vulcabras Distribuidora de Artigos Esportivos Ltda.
Vulcabras Distribuidora de Artigos Esportivos Ltda. is responsible for the sale and distribution of sports shoes and apparel. It started its activities on June 14, 2006 headquartered in the city of Horizonte, State of Ceará.

Distribuidora de Calçados e Artigos Esportivos Cruzeiro do Sul Ltda.
Distribuidora de Calçados e Artigos Esportivos Cruzeiro do Sul Ltda., was established on September 1, 2010, headquartered in the city of Itapetinga, State of Bahia. It is engaged in sale and distribution of sports shoes and apparel and boots for professional use. It started its activities in the third quarter of 2011.

Globalcyr S.A.
Globalcyr S.A. started-up its operations headquartered in the city of Montevideo, in Uruguay, and has as corporate purpose the trade and distribution of footwear. Its operations are currently shutdown.

Vulcabras Azaleia RS, Calçados e Artigos Esportivos S.A.
Vulcabras Azaleia RS, Calçados e Artigos Esportivos S.A. is a Brazilian shoes manufacturer, located in the city of Parobé, State of Rio Grande do Sul, mainly engaged in the manufacture, sale, import and export of shoes, apparel and accessories, items of leather, leather-related, plastic or similar materials, and the manufacture of components for its own use or sale to third parties.

Vulcabras Azaleia BA, Calçados e Artigos Esportivos S.A.
Vulcabras Azaleia BA, Calçados e Artigos Esportivos S.A is a Brazilian shoes manufacturer, mainly engaged in the manufacture, sale, import and export of sports shoes, women's shoes and boots for professional use. Established on August 3, 1995, headquartered in the city of Itapetinga, State of Bahia.

Vulcabras Azaleia SE, Calçados e Artigos Esportivos Ltda.

Vulcabras Azaleia SE, Calçados e Artigos Esportivos Ltda. is a Brazilian shoes manufacturer, mainly engaged in the manufacture, sale, import and export of women's shoes. Established on October 8, 1992, initially in the city of Novo Hamburgo, State of Rio Grande do Sul, started to operate in the city of Frei Paulo, State of Sergipe, on February 6, 2003.

Calzados Azaleia Peru S.A.

Calzados Azaleia Peru S.A. is responsible for the import and sale of shoes and sport gear and women's shoes in the Peruvian market. Acquired at the end of 1998, start-up date of imports and sales under the Company's brands was in 1999.

Calzados Azaleia de Colômbia Ltda.

Calzados Azaleia de Colômbia Ltda. is responsible for the import and sale of shoes and sport gear and women's shoes in the Colombian market. Started in that country in 1999 as an office, and begun to import and sell under the Vulcabras Azaleia S.A. brands in 2000.

2 Preparation basis and presentation of the financial statements

2.1 Statement of compliance (in relation to IFRS standards and CPC standards)

The individual and consolidated financial statements were prepared in accordance with the International Financial Reporting System ("IFRS") issued by the International Accounting Standards Board (IASB) and also in accordance with the accounting practices adopted in Brazil (BR GAAP).

The conclusion of financial statements was authorized by the Board of Directors on March 09, 2021.

All relevant information specific to the financial statements, and only such information, is being evidenced, and corresponds to the information used by company Management.

Functional and presentation currency

These individual and consolidated financial statements are being presented in Reais, functional currency of the Company. The financial statements presented in Reais have been rounded to the nearest value, except otherwise indicated. The overseas companies have the dollar and the Colombian Peso as their functional currency and the balance sheets have been converted to be presented in reais.

2.2 Use of estimates and judgments

The preparation of these financial statements, Management used judgments, estimates and assumptions that affect the application of accounting policies of the Company, and the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from these estimates.

Estimates and assumptions are reviewed on a continuous basis. Reviews of estimates are recognized on a prospective basis.

a. Judgments

Information about judgment referring to the adoption of accounting policies which impact significantly the amounts recognized in the financial statements are included in the following notes:

- **Note 3.b -** equity in net income of subsidiaries in investees: determines if the Company has significant influence over an investee;
- **Note 3.e -** Consolidation: determine if the Company in fact holds control over an investee;
- **Note 19 -** lease term: if the Company and its subsidiaries are reasonably certain of exercising extension options.

b. Uncertainties on assumptions and estimates

Information on uncertainties as to assumptions and estimates as of December 31, 2020 that pose a high risk of resulting in a material adjustment in book balances of assets and liabilities in the next fiscal year are included in the following notes:

- **Note 6 –** Accounts receivable: measurement of estimated credit loss for accounts receivable:
- **Note 7** – Inventories: recognition of losses in inventories without movement;
- **Note 16 -** Impairment test of intangible assets and goodwill: main assumptions regarding recoverable values;
- **Note 20** – recognition and measurement of provisions for lawsuits: main assumptions regarding the likelihood and magnitude of the outflows of funds.

2.3 Measurement of fair value

A number of the Company and its subsidiaries' accounting policies and disclosures requires the measurement of fair value to financial assets and liabilities.

The Company and its subsidiaries establish a control structure related to measurement of fair value.

The Management periodically reviews unobservable data considered significant and valuation adjustments. If third-party information, such as brokerage firm quotes or pricing services, is used to measure fair value, Management analyzes evidences obtained from the third parties to support the conclusion that such valuations meet the requirements of CPC/IFRS standards, including the level in the fair value hierarchy in which such valuations should be classified.

When measuring fair value of an asset or liability, the Company and its subsidiaries use market observable data as much as possible. Fair values are classified at different levels according to hierarchy based on information (inputs) used in valuation techniques, as follows:

- **Level 1:** prices quoted (not adjusted) in active markets for identical assets and liabilities.
- **Level 2:** inputs, except for quoted prices, included in Level 1 which are observable for assets or liabilities, directly (prices) or indirectly (derived from prices).

- **Level 3:** inputs, for assets or liabilities, which are not based on observable market data (non-observable inputs).

  The Company and its subsidiaries recognize transfers between fair value hierarchic levels at the end of the financial statements period in which changes occurred.

  Additional information on the assumptions adopted in the measurement of fair values is included in the following notes:

- **Note 13 -** Investment properties; and

- **Note 29 -** Financial instruments.

2.4 Measurement of fair value

The financial statements were prepared based on the historical cost, except for debt securities at FVTOCI, which are measured at fair value.

3 Significant accounting policies

The Company and its subsidiaries have adopted the accounting policies described below have been consistently applied to all the years presented in these financial statements, unless otherwise indicated.

3.1 Basis of consolidation

a. Business combination

Business combinations are recorded using the acquisition method when the set of activities and acquired assets addresses the definition of a business and the control is transferred to the Company and its subsidiaries. When determining whether a set of activities and assets is a business, the Company assesses whether the set of assets and activities acquired includes at least an input and a substantive process that, together, contribute significantly to the ability to generate an output.

The Company has the option of adopting a "concentration test" that allows a simplified assessment if a set of acquired activities and assets is not a business. The optional concentration test is met if, substantially, the full fair value of the acquired gross assets is concentrated in a single identifiable asset or group of similar identifiable assets.

The consideration transferred is usually measured at fair value, as well as the identifiable net assets acquired. Any goodwill arising in the transaction is tested annually for impairment. Gains in a bargain purchase are immediately recognized in profit or loss. Transaction costs are recorded in income (loss) as incurred, except the costs related to the issuance of debt or equity instruments.

Transferred consideration does not include amounts referring to payment of pre-existing relations. These amounts are usually recognized in income for the year.

Any contingent consideration payable is measured at its fair value on acquisition date. If the payment is classified as an equity instrument, it is not remeasured and the liquidation is recorded in equity. The remaining contingent consideration is remeasured at fair value on each reporting date, and subsequent changes in fair value are recorded in the statement of profit or loss for the year.

b. Subsidiaries

The Company controls an entity when it is exposed to, or has a right over the variable returns arising from its involvement with the entity and has the ability to affect those returns exerting its power over the entity. The financial statements of the subsidiaries are included in the consolidated financial statements as from the date that the Company starts to be controlled by the Company until such control ceases.

The financial information of subsidiaries is recognized under the equity method in the individual financial statements of the parent company.

c. Interest of non-controlling shareholders

The Company and its subsidiaries chose to measure non-controlling interests at their proportion interest in identifiable net assets of the acquiree on the acquisition date.

Changes to the Company's interest in a subsidiary that do not result in loss of control are accounted for as transactions from equity.

d. Loss of control

When the entity loses control over a subsidiary, the Company derecognizes the assets and liabilities and any non-controlling interests and other items recorded in the equity related to this subsidiary. Any gain or loss resulting from loss of control is recognized in income. If the Company holds any in interest in former subsidiary, this interest is measured at fair value on the date control is lost.

e. Investments in entities are accounted for at the equity method

The Company's investments in entities accounted for at the equity method include interests in associated companies.

Associated companies are the entities in which the Company has, directly or indirectly, significant influence but not control or jointly-control on financial and operating policies.

Such investments are initially recognized by the cost, which includes expenses with transactions. After initial recognition, financial statements include the Company's interest in income or loss for the year and other comprehensive income of the investee up to the date in which significant influence or joint control no longer exists. In the Parent Company financial statements, investments in subsidiaries are also accounted for using this method.

f. Transactions eliminated in the consolidation

Intragroup balances and transactions, and any unrealized revenues or expenses derived from intragroup transactions, are eliminated. Unrealized gains originating from transactions with investees recorded using the equity method are eliminated against the investment in the proportion of the Company's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only up to the point where there is no evidence of loss due to impairment.

3.2 Translation of balances in foreign currencies

(i) Transactions in foreign currency

Transactions in foreign currency are converted into the respective functional currencies of the Company's entities and its subsidiaries at foreign exchange rates on transaction dates.

Monetary assets and liabilities denominated and calculated in foreign currencies on the balance sheet date are reconverted into the functional currency at the exchange rate on that date. Non-monetary assets and liabilities denominated in foreign currency that are measured at fair value are translated into the functional currency at the foreign exchange rate on the date the fair value was determined. Non-monetary items that are measured based on the historical cost in foreign currency are translated using the rate of the transaction date. Foreign currency differences arising from the translated are recognized in income (loss).

(ii) Foreign operations

Foreign operations' assets and liabilities, including goodwill and adjustments to fair value resulting in the acquisition, are translated into reais (R$) at the exchange rate prevailing on balance sheet date. Foreign operations' revenues and expenses are translated into reais (R$) at exchange rates prevailing on transaction dates.

The differences in foreign currencies generated for the translation into the presentation currency are recognized in other comprehensive income and accumulated in the equity valuation adjustments in equity account. If the subsidiary is not a wholly-subsidiary, the corresponding portion of the translation difference is allocated to the non-controlling shareholders.

When an entity abroad is written-off in whole or in part, thus losing control, significant influence or joint control, the accumulated amount of exchange-rate changes related to that entity abroad is reclassified to profit or loss as part of the gain or loss on the write-off.

3.3 Revenue from contracts with customers

Revenue is measured based on the consideration specified in the contract with customer. The Company and its subsidiaries recognize the revenue when the control over the product is transferred to the client. In this context, the revenue is recognized when products are delivered and accepted by the clients in their facilities.

For sales that allow the return of goods, the revenue is recognized to the extent that it is highly likely that a significant reversal in the value of accumulated revenue will not occur.

Therefore, the value of the recognized revenue is adjusted for the expected returns, which are estimated based on historical data for specific types of returns.

3.4 Employee benefits

a. Short-term employee benefits

Obligations for short-term employee benefits are recognized as personnel expenses as the related service is rendered. Liability is recognized for the amount of expected payment in case the Company and its subsidiaries have a legal or constructive obligation of paying this amount due to service provided in the past by the employee and the obligation can be estimated reliably.

b. Agreement for share-based payment

The fair value of share-based payment agreements is recognized at the grant date, as personnel expenses, with a corresponding increase in equity, over the period when employees become unconditionally entitled to the premiums. The amount recognized as an expense is adjusted to reflect the actual number of awards for which the related service and performance conditions will be met, so that the amount ultimately recognized as an expense is based on the number of awards meeting these performance conditions at vesting date.

3.5 Government grant

Government grants and assistance are recognized when there is reasonable assurance that the terms and conditions set forth by the government agencies. They are recorded as deduction of revenue in income (loss) for the year necessary to confront them with the expense that the government grant or assistance intends to offset.

3.6 Financial revenues and expenses

Financial revenues and expenses comprise:

- Interest revenue;
- Interest expense;
- Net gains/losses from financial assets measured at fair value through profit or loss;
- Exchange-rate change on financial assets and liabilities.

Interest revenue and expenses are recognized in income (loss) at the effective interest method.

The effective interest rate is the rate that exactly discounts payments or receipts in estimated future cash flows over the expected life of the financial instrument at:

- gross book value of financial assets; or
- at amortized cost of financial liability.

In the calculation of interest revenue or expenses, the actual interest rate is levied on the gross book value of the assets (when the assets have no recovery issues) or at amortized cost of liabilities. However, interest revenue is calculated by applying the actual interest rate at amortized cost of financial assets with recovery issues after the initial recognition. If the asset no longer presents recovery issues, the calculation of interest revenue is again based on the gross value.

3.7 Taxes

a. *Sales tax*

Revenues, expenses and assets not recognized, net of taxes levied on sales, except for:

- When the net value of the sales tax, recoverable or payable, is included in the amounts receivable and payable in the balance sheet.

Non-cumulative revenues from sales of goods is taxed at the rates of 1.65% and 7.60% for PIS and COFINS, respectively. ICMS tax is paid at the rates in force in each State. Furthermore, the Company also pays social security contribution at a rate of 1.5%.

b. *Income tax and social contribution*

Current and deferred income taxes and social contribution for the year are calculated based on rates of 15%, with additional 10% on taxable income exceeding R$ 240, for income tax, and 9% on taxable income for social contribution on net income, and consider offset of tax losses and negative basis of social contribution, limited to 30% of taxable income for the year.

Income tax and social contribution expense comprises both current and deferred income tax and social contribution. Current taxes and deferred taxes are recognized in profit or loss unless they are related to the business combination, or items directly recognized in equity or other comprehensive income.

(i) Current

Current tax expense is the tax payable or receivable on the taxable income or loss for the year and any adjustments to taxes payable in relation to prior years.

The amount of current taxes payable or receivable is recognized in the balance sheet as an asset or tax liability under the best estimate of the expected amount of taxes to be paid or received reflecting the uncertainties related to its calculation, if any. It is measured based on tax rates enacted at the balance sheet date.

Current tax assets and liabilities are offset only if certain criteria are met.

(ii) Deferred

Deferred income tax and social contribution are recognized on the differences generated between assets and liabilities recognized for tax purposes and corresponding amounts recognized in the consolidated financial statements.

The Company also recognizes deferred corporate income tax and social contribution on tax losses and social contribution tax loss carryforwards, whose offsetting is limited to 30% of annual taxable income.

However, the deferred income tax and social contribution are not recognized if generated in the initial record of assets and liabilities in operations that do not affect the calculation bases, except in business combination operations. Deferred income tax and social contribution are determined considering rates (and laws) prevailing on consolidated financial statements preparation date and applicable when respective income tax and social contribution are realized.

Deferred income tax and social contribution assets are recognized only in the proportion of the probability that the positive taxable base will be available and temporary differences can be used for it and the tax losses may be offset.

3.8 Inventories

Inventory is valued based on the historical cost of acquisition and production, or at the net realizable value, whichever is lower. The cost of inventories is determined by the weighted average cost criteria and includes all acquisition and transformation costs and other costs incurred to bring inventories to current condition and location.

In case of industrialized, in process and finished products, inventory includes general manufacturing expenditures based on the normal capacity of production.

Net realizable value is formed by estimated sales price, throughout the normal course of business less estimated costs for its completion and estimated sales expenditures. Estimated losses from slow-moving or obsolete inventories are formed when considered necessary by Management.

3.9 Property, plant and equipment

(i) Recognition and measurement

Property, plant and equipment is stated at historical cost less the respective depreciation and impairment losses, if applicable.

The cost includes expenditures that are directly attributable to the acquisition of assets. The cost of assets constructed by the Company itself include:

- The cost of materials and direct labor;
- Any other costs attributable to bringing the assets to the location and condition required for them to operate in the manner intended by the Management;
- The costs for dismantling and restoration of the site where these assets are located; and
- Borrowing costs on qualifiable assets.

Other expenditures are capitalized only when there is an increase in the future economic benefits to the item of property, plant and equipment. All other expenditures are recognized in the statement of profit or loss as an expense when incurred. Residual value and estimated useful life of assets are measured and adjusted, if necessary, on the year closing date.

Purchased software that can be integral to the functionality of a piece of equipment is capitalized as part of that equipment.

Gains and losses on disposal of a property, plant and equipment item (determined by comparing the proceeds from disposal with the book value of property, plant and equipment) are recognized in other operating revenues/expenses in profit or loss.

(ii) Subsequent expenditures

Subsequent expenditures are capitalized in accordance with the probability that associated future benefits may be earned by the Company. Maintenance expenditures and recurring repairs are recorded in income (loss).

(iii) Depreciation

Fixed asset items are depreciated under the straight-line method in the income (loss) for the year in the useful life of each component based on the rates mentioned in Note 14. Leased assets are depreciated over the shorter of the lease term or the estimated useful life of the asset, unless it is reasonably certain that the Company and its subsidiaries will obtain ownership at the end of the lease term. Land is not depreciated.

3.10 Intangible assets and goodwill

(i) Goodwill

The goodwill is measured at cost, less accumulated impairment losses.

(ii) Research and development

Research and development expenditures are recognized in income (loss) as incurred.

Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company and its subsidiaries intend to and has sufficient resources to complete development and use or sell the asset.

Other development expenses are recognized in the income (loss) as incurred. After the initial recognition, capitalized development expenditures are measured at cost less accumulated amortization and any accumulated impairment losses.

(iii) Other intangible assets

Other intangible assets acquired by the Company and its subsidiaries with finite useful lives are carried at cost, less accumulated amortization and any accumulated impairment losses.

(iv) Subsequent expenses

Subsequent expenses are capitalized only when they increase the future economic economic benefits incorporated to the specific asset to which they relate. All other expenditures, including expenditures on internally-generated goodwill and trademarks and patents, are recognized in profit or loss as incurred.

(v) Amortization

The useful life of the intangible asset is evaluated as defined or undefined. The cost of intangible assets acquired in a business combination is the fair value on acquisition date.

Intangible assets with undefined useful life are not amortized and have their recoverable value tested on an annual basis. Intangible assets with a defined useful life are amortized over their useful lives.

Estimated useful life is reviewed at the end of each year. The amortization expense of intangible assets with defined life is recognized in the statement of profit or loss in the caption of expense consistent with the function of the intangible assets.

3.11 Investment property

Investment property is property held to earn rentals or for capital appreciation or both, but not for sale in the ordinary course of business, or use in the production or supply of goods or services or for administrative purposes. Investment property is recognized at cost method. The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure. Its fair value is measured and properly disclosed. See note 13.

3.12 Financial instruments

(i) Recognition and measurement

Trade accounts receivable and debt securities issued are initially recognized on the date that they were originated. All other financial assets and liabilities are initially recognized when the Company and its subsidiaries become a party to the instrument's contractual provisions.

A financial asset (unless it is trade accounts receivable without a material financing component) or a financial liability is initially measured at fair value, plus, for an item not measured at FVTPL (fair value through profit or loss), transaction costs which are directly attributable to its acquisition or issue. Trade accounts receivable without a significant financing component is initially measured at the price of operation.

(ii) Subsequent classification and measurement

Financial assets

In the initial recognition, a financial asset is classified as measured: at cost
Amortized, at FVTPL (fair value through other comprehensive income) **-** debt instrument, at FVTOCI **-** equity instrument; or financial assets at FVTPL

Financial assets are not reclassified after initial recognition, unless the Company and its subsidiaries change the business model for the management of financial assets, in which case all affected financial assets are reclassified on the first day of the reporting period subsequent to the change in the business model.

A financial asset is measured at amortized cost if it meets both conditions below and is not designated as measured at FVTPL:

- it is held within a business model whose purpose is to maintain financial assets to receive contractual cash flows; and

- its contractual terms generate, on specific dates, cash flows only related to the payment of principal and interest on outstanding principal value.

A debt instrument is measured at FVTOCI if it meets both conditions below and is not designated as measured at FVTPL:

- it is maintained within a business model whose purpose is achieved by both the receipt of contractual cash flows and the sale of financial assets; and

- its contractual terms generate, on specific dates, cash flows which are only payments of principal and interest on outstanding principal value.

In the initial recognition of an investment in an equity instrument not held for trading, the Company and its subsidiaries may irrevocably choose to present subsequent changes in the fair value of the investment in other comprehensive income (“OCI”). This choice is made on an investment basis.

All financial assets not classified as measured at amortized cost as described above or at FVTOCI, are classified as FVTPL.

Financial assets - Evaluation of business model

The Company and its subsidiaries and its subsidiaries carry out an evaluation of the purpose of the business in which a financial asset is held in the portfolio, since this better reflects the way in which the business is managed and the information is provided to management. The information considered is comprised by:

- the policies and goals established for the portfolio and practical operation of these policies. They include the question of whether management's strategy focuses on obtaining contractual interest revenue, maintaining a certain interest rate profile, matching the duration of financial assets with the duration of related liabilities or expected cash outflows, or the realization of cash flows through the sale of assets;

- how the performance of the portfolio is evaluated and reported to the management of the Company and its subsidiaries;

- risks that affect the performance of the business model (and the financial assets held in that business model) and the way those risks are managed;

- the sales rate, volume and timing of sales of financial assets in prior periods, the reasons for such sales and future sales expectations.

Financial assets – Evaluation whether the contractual cash flows represent solely payments of principal and interest

For this evaluation purposes, “principal” is defined as the fair value of the financial asset at initial recognition. “Interest” is defined as a consideration for the amount of cash at the time and for the credit risk associated to the outstanding principal value during a certain period and for other risks and base costs of loans (for example, liquidity risk and administrative costs), as well as for the profit margin.

The Company considers the contractual terms of the instruments to evaluate whether the contractual cash flows are only payments of principal and interest. It includes evaluating whether the financial asset contains a contractual term that could change the time or amount of the contractual cash flows so that it would not meet this condition. In making this evaluation, the Company considers the following:

- contingent events that change the amount or timing of cash flows;
- terms that may adjust the contractual rate, including variable rates;
- the prepayment and the extension of the term; and
- the terms that limit the Company's access to cash flows of specific assets (for example, based on the performance of an asset).

Financial assets - Subsequent measurement and gains and losses

- **Financial assets at FVTPL -** These assets are subsequently measured at fair value. Net income, plus interest, is recognized in income (loss).
- **Financial assets at amortized cost -** These assets are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is impaired. Interest revenue, foreign exchange gains and impairment losses are recognized in the profit or loss. Any gain or loss on derecognition is recognized in profit or loss.
- **Equity instruments measured at FVTOCI -** These assets are subsequently measured at fair value. Interest revenue calculated using the effective interest method, foreign exchange gains and losses and impairment loss are recognized in income (loss). Other net income is recognized in OCI. In derecognition, the retained earnings in OCI are reclassified to the income (loss).

Financial liabilities – Classification, subsequent measurement and gains and losses
Financial liabilities were classified as measured as amortized cost. A financial liability is classified as measured at fair value through profit or loss if it is classified as held for trading, if it is a derivative or assigned as such in initial recognition.

Financial liabilities measured at FVTPL are measured at fair value and net profit or loss, plus interest, is recognized in profit or loss. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense, foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in income (loss).

(iii) Derecognition

Financial assets
The Company derecognizes a financial asset when:

- contractual rights to the cash flows of the asset expire; or

- transfers the rights to the reception of contractual cash flows on a financial asset in a transaction that:

– substantially all the risks and rewards of ownership of the financial asset are transferred; or

– the Company neither transfers nor substantially maintains all the risks and benefits of the ownership of the financial asset and does not retain control over the financial asset.

The Company carries out transactions in which it transfers assets recognized in the balance sheet, but retains all or substantially all risks and rewards of the assets transferred. In such cases, financial assets are not derecognized.

Financial liabilities
The Company and its subsidiaries derecognize a financial liability when its contractual obligations are discharged or canceled or expired. The Company and its subsidiaries also derecognize a financial liability when terms are modified, and the cash flows of the modified liability are substantially different if a new financial liability based on the terms changed is recognized at fair value.

In the derecognition of a financial liability, the difference between the extinct book value and the consideration paid (including assets transferred that do not pass through the cash or assumed liabilities) is recognized in profit or loss.

(iv) Offset
Financial assets and liabilities are offset and the net amount reported in the balance sheet only when the Company and its subsidiaries have a legally exercisable right to offset and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

3.13 Capital

Common shares
Common shares are classified as equity. Additional costs directly attributable to the issue of shares and share options are recognized as a deduction from equity, net of any tax effects.

3.14 *Impairment*

(i) Non-derivative financial assets
The Company and its subsidiaries recognize provisions for expected credit losses on financial assets measured at amortized cost.

The Company and its subsidiaries measure the provision for loss in an amount equal to credit loss expected for the whole lifetime.

When determining if the credit risk of a financial asset has significantly increased since the initial recognition and when estimating expected credit losses, the Company and its subsidiaries consider reasonable and tolerable information that is relevant and available without excessive cost or effort. This includes quantitative and qualitative information and analysis, based on the historical experience, credit assessment, and considering forward-looking information.

The Company and its subsidiaries assume that a financial asset has significantly increased if it:

- it is very unlikely that the debtor will fully pay its credit obligations, without having to resort to actions like the realization of guarantee (if any); or

- financial asset is overdue for more than 90 days.

On each reporting date, the Company evaluates whether the financial assets accounted for at amortized cost and are experiencing recovery problems. A financial asset has "recovery problems" when one or more events with a negative impact on the estimated future cash flows of the financial asset occur.

Objective evidence that financial assets had recovery problems includes the following observable data:

- significant financial difficulties of the debtor;

- delinquency or late payment of more than 90 days;

- renegotiation of an amount due to the Company under conditions that would not be accepted;

- the probability that the borrower will enter bankruptcy or will go through other type of financial reorganization or court-ordered reorganization; or

- the disappearance of an active market for that financial asset because of financial difficulties.

(ii) Non-financial assets

On each reporting date, the Company and its subsidiaries review book values of non-financial assets to determine if there is an indication of impairment. If certain evidence exists the recoverable amount of the asset is determined. In case of goodwill, recoverable value is tested on an annual basis.

For impairment tests, assets are grouped into CGUs, that is, the smallest identifiable group of assets that can generate cash inflows by continuous use, which are highly independent from cash inflows referring to other assets or cash generating units. Goodwill in a business combination is allocated to cash generating units or groups of cash generating units that are expected to benefit combination synergy.

Recoverable value of an assets or CGU is the higher of value in use and fair value less selling costs. Value in use is based on estimated future cash flows discounted to present value using a discount rate before taxes that reflects current market evaluations of times value of money and the specific risks of the assets or CGU.

An impairment loss is recognized when the book value of an asset or its CGU exceeds its recoverable value.

Impairment losses are recognized in profit or loss.

An impairment loss related to goodwill is not reversed. Regarding other assets, impairment losses are reversed only with the condition that the new book value of the asset does not exceed the book value that would have been calculated, net of depreciation or amortization, if the value loss had not been recognized.

3.15 Provisions

Pursuant to CPC 25 (IAS 37), provisions are recognized when the Company has a present obligation (legal or unformalized), as a result of a past event, and it is likely that an outflow of funds involving economic benefits will be necessary to settle the obligation, and a reliable estimate of the amount of this obligation can be made. If the effect of the time value of money is material, provisions are discounted using the current rate that reflects the specific risks for the liability, where appropriate. When the discount is made, the increase in the provision due to the lapse of time is recognized as a financial cost.

3.16 Leases

At the inception of an agreement, the Company and its subsidiaries evaluate whether the agreement is for or contains a lease.

An agreement is or contains a lease if it transfers the right to control the use of an identified asset for a period of time in exchange for consideration.

(i) As a lessee

At the inception or amendment of an agreement containing a lease component, the Company and its subsidiaries allocate the lease consideration to each lease and non-lease component based on its individual prices. However, for leases of real estate, the Company and its subsidiaries have chosen to not separate non-lease components and lease and non-lease components are calculated as a single component.

The Company and its subsidiaries recognize a right-of-use asset and a lease liability on the lease inception date. The right-of-use asset is initially measured at cost, which comprises the value of initial measurement of the lease liability adjusted to any lease payments made to the initial date, plus any initial direct costs incurred by the lessee and an estimate of the costs to be incurred by the lessee to disassemble and remove the underlying asset, by returning it to the place where it is located or returning the underlying asset to the state required under the lease terms and conditions, less any lease incentives received accordingly.

The right-of-use asset is subsequently depreciated using the straight-line method from the start date to the end of the lease term, unless the lease transfers ownership of underlying asset to the lessee at the end of lease term, or if the cost of the right-of-use asset reflects that the lessee will exercise the call option. In this case, the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as that of fixed assets. Moreover, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the inception date, and discounted using the interest rate implied in the lease or, if that rate cannot be immediately determined, the incremental loan rate of the Company and its subsidiaries.

The Company and its subsidiaries set its incremental rate on loans by obtaining interest rates from a number of external funding sources and making some adjustments to reflect the agreement terms and the type of leased asset.

Lease payments included in the measurement of lease liability are comprised by the following:

- Fixed payments, including initial fixed payments;
- Variable lease payments based on an index or rate, initially measured based on the index or rate at the initial date;
- Amounts expected to be paid by the lessee, in accordance with the residual value guarantees; and
- The call option exercise price if the lessee is reasonably certain to exercise such option, and payments of fines due to termination of the lease agreement, if the term of the lease reflects the fact that the lessee is exercising their option to terminate the lease agreement.

The lease liability is measured at amortized cost using the effective interest rate method. It is remeasured when a change occurs in future lease payments as a result of a change in an index or rate, if there is a change in the amounts expected to be paid in accordance with the residual value guarantee, if the Company and its subsidiaries change its assessments if they exercise a call option, extend or terminate it, or if there is a payment of a initially fixed revised lease.

When the lease liability is thus remeasured, an adjustment corresponding to the book value of the right-of-use asset is made or recorded in income (loss) if the right-of-use asset is reduced to zero.

The Company and its subsidiaries record right-of-use assets that fall outside the definition of investment property in “fixed assets” and lease liabilities in “loans and financing” in the balance sheet.

Low-value asset leases

The Company and its subsidiaries opted not to recognize the assets of right-of-use and the lease liabilities for low-value lease assets and short-term lease, including IT equipment. The Company and its subsidiaries recognize payments of those leases as an straight-line method expense during the lease term.

3.17 Statements of added value

The Company prepared individual statements of added value in compliance with CPC 09, which are presented as part of the financial statements under BRGAAP applicable to publicly-held companies. The consolidated statement of added value is not required under international accounting standards issued by the IASB and is being presented as supplementary information.

3.18 Measurement of fair value

Fair value is the price that would be received upon the sale of an asset or paid for the transfer of a liability in an orderly transaction between market participants at the measurement date, on the primary market or, in the absence thereof, on the most advantageous market to which the Company and its subsidiaries have access on such date. The fair value of a liability reflects its risk of non-performance.

A series of accounting policies and disclosures of the Company and its subsidiaries requires the measurement of fair value, for financial and non-financial assets and liabilities (See Note 2.2(b)).

When available, the Company and its subsidiaries measure the fair value of a security using the price quoted on an active market for such securities. A market is considered as active if the transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no price quoted on an active market, the Company and its subsidiaries use valuation techniques that maximize the use of relevant observable data and minimize the use of unobservable data. The chosen valuation technique incorporates all the factors market participants would take into account when pricing a transaction.

If an asset or a liability measured at fair value has a purchase price and a selling price, the Company and its subsidiaries measure assets based on purchase prices and liabilities based on selling prices.

The best evidence of the fair value of a financial instrument upon initial recognition is usually the transaction price – i.e., the fair value of the consideration given or received. If the Company and its subsidiaries determine that the fair value at initial recognition differs from the transaction price and the fair value is not evidenced by a price quoted on an active market for an identical asset or liability or based on an evaluation technique for which any non-observable data are judged to be insignificant in relation to measurement, then the financial instrument is initially measured at fair value adjusted to defer the difference between the fair value at the initial recognition and the transaction price. This difference is subsequently recognized in income (loss) on an appropriate basis over the life of the instrument, or until such time when its valuation is fully supported by observable market data or the transaction is closed, whichever comes first.

3.19 New standards and interpretations not yet effective

The following changed standards and interpretations should not have a significant impact on individual and consolidated financial statements.

- Reference to the Conceptual Framework (amendments to CPC 15/IFRS 3), effective as of January 1, 2020.

- Onerous Contracts - costs to fulfill a contract (amendment to CPC 25/IAS 37), with effectiveness scheduled for January 1, 2022.

- Change in the benchmark interest rate - Phase 2 (amendments to CPC 48/IFRS 9, CPC 38/IAS 39, CPC 40/IFRS 7, CPC 11/IFRS 4 and CPC 06/IFRS 16), to become effective on January 01, 2021.

- Rental concessions related to COVID-19 (amendment to CPC 06/IFRS 16), effective as of June 1, 2020.

- Property, plant and equipment: Revenues before intended use (amendments to CPC 27/IAS 16), with effectiveness scheduled for January 1, 2022.

- Classification of Liabilities in Current or Non-Current (Amendments to CPC 26/IAS 1) to become effective on January 01, 2023.

4 Cash and cash equivalents

	Consolidated		**Parent company**	
	12/31/2020	**12/31/2019**	**12/31/2020**	**12/31/2019**
Current account	2,197	606	3	3
Post-fixed CDB (Invest Fácil)	10,183	8,334	15	73
Floating-rate CDB (*)	133,494	43,941	-	3,530
Debentures	-	4,000	-	-
Cash and cash equivalents abroad	12,678	5,283	-	-
	158,552	**62,164**	**18**	**3,606**

(*) The change was due to the cash increase, mainly due to the release of new loans.

Balance of checking account is represented by bank deposits without interest accrual.

Interest earning bank deposits classified as cash equivalents consist of short-term investments, with daily liquidity, which can be redeemed at any time regardless of maturity, without forfeiting the yield.

Interest earning bank deposits accruing interest on the bank account balance (Invest Fácil) are made automatically according to the availability of bank balance and the redemptions occur according to the immediate cash requirements of the Company and its subsidiaries. Profitability is from 10% to 40% of the CDI - Interbank Deposit Certificate as of December 31, 2020 and December 31, 2019.

Floating-rate CDBs (Bank Deposit Certificate) are remunerated from 97% to 101.25% of CDI as of December 31, 2020 (from 97.5% to 98.75% of CDI as of December 31, 2019). See Note 29 on credit risk exposure.

5 Interest earning bank deposits

	Consolidated		Parent company	
	12/31/2020	**12/31/2019**	**12/31/2020**	**12/31/2019**
Interest earning bank deposits - Domestic:				
Floating-rate CDB (*)	85,784	-	80,949	-
Investment funds – fixed income	4,301	2,529	2	2
Share investment funds	458	294	-	-
	90,543	**2,823**	**80,951**	**2**
Current	80,949	-	80,949	-
Non-current	9,594	2,823	2	2

Part of the floating-rate Bank Deposit Certificates (CDBs), in the amount of R$ 4,835, has no liquidity, as it is linked to guarantees in financing agreements (BNB) remunerated at 98.0% of the CDI as of December 31, 2020. On the other hand, the amount of R$ 80,949 is remunerated from 99.5% to 100.0% of the CDI rate on December 31, 2020 and is classified in short-term interest earning bank deposits, as it exclusively covers the investments of the Parent Company and there is no expectation of redemption in the short term. On December 31, 2019, the Parent Company had no CDBs (Bank Deposit Certificates), without the estimate of short-term redemption.

Investments in fixed income investment funds are remunerated from 70% to 120.5% of CDI as of December 31, 2020 (from 112% to 132% of CDI as of December 31, 2019), no liquidity, since they are pegged to guarantees of financing contracts (BNB).

Equity investment funds are financial assets stated at fair value through other comprehensive income. They were valued according to B3's quotation, on the balance sheet date.

6 Trade accounts receivable

a. Breakdown of balances

	Consolidated	
Accounts receivable	**12/31/2020**	**12/31/2019**
Domestic:		
Clients	594,927	467,082
Foreign:		
Clients	29,706	23,373
Subtotal trade accounts receivable	624,633	490,455
Impairment losses	(50,529)	(42,078)
Total trade accounts receivable, net (*)	574,104	448,377

(*) In the year ended December 31, 2020, the concentration of revenues as of the second half of the year, with average terms of over 100 days, contributed to the increase compared to December 31, 2019, due to the general shutdown of the businesses owing to the effects of the COVID-19 pandemic.

b. Per maturity

	Consolidated	
	12/31/2020	**12/31/2019**
Falling due (days):		
01–30	143,662	138,451
31–60	171,540	130,738
61–90	123,248	80,169
>90	140,547	93,308
	578,997	442,666
Overdue (days):		
01–30	5,250	8,939
31–60	616	1,412
61–90	454	336
>90	39,316	37,102
	45,636	47,789
	624,633	490,455

The exposure of the Company and its subsidiaries to credit risk is influenced, mainly, by the individual characteristics of each client. However, management also considers the factors that may influence the credit risk of its client base, including the risk of non-payment of the industry, sales and of the country in which the client operates.

Details on gross sales in the foreign and domestic market, are disclosed in Note 22. The Management understands that the amount that better represents its maximum exposure to credit risk for the year ended December 31, 2020 is R$ 50,529 (R$ 42,078 as of December 31, 2019), which derives from the criteria mentioned in item (c).

c. Measurement criteria of losses with clients (impairment)

The analysis of the credit granting to the customers is made when he/she is registered in the system of the Company and its subsidiaries, for which there is a requirement related to all necessary documentation, including financial statements and commercial references. The credit limit is revalued at each posting of new orders, due to the seasonality of the financial market.

In addition to the individual analysis of each client in default, the Company and its subsidiaries use a matrix of provision to calculate the expected loss on accounts receivable. The provision rates applied are based on arrears for groupings of segments of clients with similar loss patterns, such as, for example, by geographic region, line of product or type of client, credit risk, among other.

The provision matrix is initially based on the historical loss rates observed by the Company and its subsidiaries. The Company and its subsidiaries review the matrix on a forward-looking basis in order to adjust it according to historical loss experience. For example, if there is expectation of deterioration of economic conditions for the following year, which could cause increase of default, the expected loss rates are adjusted, when deemed necessary. In every accounting closing date, the loss rates are updated and the need of changes in the prospective estimates is assessed.

The criteria used to form impairment losses is the same for the portfolio of domestic and foreign clients.

The Company and its subsidiaries carry out an individual analysis of each client. For clients under court-ordered reorganization, the Company has a policy of provisioning the amount of 40% for the expected loss of the outstanding balance for clients with a financial restructuring profile and for those who do not have the same profile, 100% is applied on the outstanding balance.

d. Changes in provision for impairment

Changes in provision for impairment losses in the year ended December 31, 2020 and 2019 are shown below:

	Consolidated	
	12/31/2020	**12/31/2019**
Opening balance	(42,078)	(33,143)
Supplement of provision	(21,410)	(14,351)
Recovery of provisions	12,959	5,416
Closing balance	(50,529)	(42,078)

Considering the capillarity of sales distribution and the Company's credit policy, the concentration of clients in sales or in the receivables portfolio is lower than 14%. Thus, at the end of the year as of December 31, 2020, there was no significant change in the participation or concentration in the main clients due to the effects of the COVID-19 pandemic (see Note 1.1.2).

In accordance with the CVM Resolution 564, of December 17, 2008, which approved CPC 12, the Company and its subsidiaries considered that the effects of the present value adjustment of its current and non-current assets are immaterial. The average collection term is 79 days as of December 31, 2020 (75 days as of December 31, 2019).

The exposure of the Company and its subsidiaries to credit and currency risks and impairment losses related to trade accounts receivable and other accounts are disclosed in Note 29.

7 Inventories

	Consolidated	
	12/31/2020	**12/31/2019**
Finished goods (*)	28,418	63,490
Good for resale (**)	95,142	61,270
Work in process	28,139	25,341
Raw materials	67,242	56,769
Packaging and storeroom materials	20,865	23,512
Goods in transit	15,269	9,124
Imports in transit	1,849	1,732
	256,924	241,238

(*) The decrease was due to the warming of demand throughout the second half of 2020, allowing to sell all the production carried out in this period and still part of the existing inventory.

(**) The increase was due to the Company's strategy to meet the demand for the last quarter of 2020 and to prevent the increase of raw material princes estimated for the beginning of 2021.

a. Measurement criteria of provision *(impairment)*

The Company's subsidiaries, based on a historical analysis and estimate of losses, form a provision for losses in the realization of inventories. An allowance was set up for 100% of the raw materials and work in progress inventories without movement for over 180 days. All items of the finished products and goods for resale inventory were valued and an allowance was set up for potential losses due to the perspectives of sale of each of them, with an allowance for all the items that presented negative contribution margin.

As of December 31, 2020, the provision for losses for finished products and resales is R$ 6,578 (R$ 15,271 as of December 31, 2019), the provision for losses on raw materials is R$ 21,197 (R$ 16,597 at December 31, 2019) and the provision for losses for work in process is R$ 3,908 (R$ 8,367 as of December 31, 2019).

The amount of raw material, labor, and indirect manufacturing costs used in the breakdown of costs of products sold is R$ 647,734 as of December 31, 2020 (R$ 732,740 as of December 31, 2019).

b. Changes in provision *(impairment)*

Changes in provision for losses in the realization of inventory in the year ended December 31, 2020 and December 31, 2019 are shown below:

	Consolidated	
	12/31/2020	**12/31/2019**
Opening balance	(40,235)	(52,139)
Additions of the year	(19,179)	(14,215)
Reversal of provision (*)	27,731	26,119
Closing balance	**(31,683)**	**(40,235)**

(*) We wrote-off R$ 8,461 due to the sale of indirect subsidiary Vulcabras Azaleia SE as of March 31, 2020.

8 Recoverable taxes

	Consolidated		Parent company	
	12/31/2020	**12/31/2019**	**12/31/2020**	**12/31/2019**
ICMS	9,707	4,878	20	20
IPI	514	1,103	-	-
PIS/COFINS (*)	9,683	12,522	-	76
FINSOCIAL	2,359	2,349	1,805	1,794
Reintegra	460	550	-	-
Other	2,394	1,065	543	535
	25,117	**22,467**	**2,368**	**2,425**
Current	18,330	14,723	563	631
Non-current	6,787	7,744	1,805	1,794

(*) In the year ended December 31, 2020, the subsidiary Vulcabras Distribuidora recorded extemporaneous credit of R$ 3,359 for the obtained proof of claim from the Brazilian Federal Revenue Service regarding the recovery of Pis/Cofins based on the thesis of exclusion of ICMS, which was definitely judged. In the year ended, it was recognized the amount of R$ 3,400, where R$ 1,805 of principal, was recognized under "Other Operating Revenues", and, R$ 1,595 related to financial update, was recognized as "Financial Revenue". The value recognized refers to the calculation of the "uncontroversial" value.

9 Income tax and social contribution

a. Income tax prepayment

	Consolidated		Parent company	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019
Income tax prepayment	5,108	4,580	154	353
	5,108	**4,580**	**154**	**353**

b. Deferred income tax and social contribution

	Consolidated	
	12/31/2020	12/31/2019
Temporary differences during the year		
Revaluation of property, plant and equipment	(2,406)	(2,850)
Deferred income tax - foreign subsidiary	1,359	330
Deferred income tax and social contribution on temporary differences	**(1,047)**	**(2,520)**
Total deferred income tax and social contribution in assets	1,359	330
Total deferred income and social contribution tax liabilities	(2,406)	(2,850)

Deferred and current income tax and social contribution in the consolidated income (loss). As shown in Note 9c. The rate used to calculate the tax was 34%:

	Consolidated	
	12/31/2020	12/31/2019
Current income tax and social contribution	(4,681)	(3,816)
	(4,681)	(3,816)

c. Reconciliation of effective tax rate

	Consolidated	
	IRPJ / CSLL	
	12/31/2020	12/31/2019
Income before income tax and social contribution	36,235	146,896
Income tax and social contribution at a rate of 34%	12,320	49,945
Non-deductible expenses	2,713	1,357
Reintegra **(a)**	(22)	(17)
State tax incentives **(b)**	(40,286)	(43,909)
Incentive to technological innovation	-	(7,075)
Exchange-rate effects	(1,044)	(38)

	Consolidated	
	IRPJ / CSLL	
	12/31/2020	**12/31/2019**
IRPJ incentive	-	(1,536)
Revenue from export	(2,430)	-
Offsetting of tax loss and negative basis	(1,742)	-
Foreign subsidiaries	-	249
Other additions/exclusions **(c)**	5,095	-
Tax loss not formed and adjustment of equalization of rates of subsidiaries **(b)**	30,077	4,840
Expense with income tax and social contribution	4,681	3,816
Effective rate (e)	12.92%	2.60%

(a) Special Tax Reintegration Regime for Exporting Companies.

(b) See description of tax benefits in Note 31.

(c) The most relevant amounts refer to the addition of non-deductible provisions of R$ 10,193 and exclusions of allowance for doubtful accounts of R$ 4,388.

(d) In the consolidated effective tax rate, there are companies that are at an accounting and tax loss, and therefore there is no tax to be paid, but their loss is in the consolidated balance and was considered in the net income at the beginning of the note. Therefore, in this line, the effect of additions and exclusions of companies that did not have tax to pay is excluded.

(e) Effective rate on income before investee’s income tax and social contribution.

d. Tax loss carryforwards

The Company and its subsidiaries Vulcabras Azaleia CE, Calçados e Artigos Esportivos S.A., Vulcabras Azaleia BA, Calçados e Artigos Esportivos S.A. e Vulcabras Azaleia SE, Calçados e Artigos Esportivos Ltda. and Vulcabras Distribuidora de Artigos Esportivos Ltda., have significant tax incentives that considerably reduce their capacity to offset any deferred income tax credits. Management is constantly monitoring the renewal of tax incentives. The Company and its subsidiaries do not record the deferred income tax and social contribution on tax losses. As of December 31, 2020 and December 31, 2019, the parent company and its subsidiaries had tax losses to be utilized for offset, related to the following base amounts:

	12/31/2020						
	Vulcabras Azaleia CE, Calçados e Artigos Esportivos S.A.	**Vulcabras Azaleia BA, Calçados e Artigos Esportivos S.A.**	**Vulcabras Distribuidora de Artigos Esportivos Ltda.**	**Vulcabras Azaleia SP, Comércio de Artigos Esportivos Ltda.**	**Distribuidora de Calçados e Artigos Esportivos Cruzeiro do Sul Ltda.**	**Vulcabras Azaleia S.A.**	**Total**
Tax losses calculated on December 31, 2020	362,622	622,101	80,736	329,364	35,104	142,326	1,572,253
Negative basis of social contribution on December 31, 2020	1,162,515	634,122	80,736	329,364	35,104	144,441	2,386,282

	12/31/2019								
	Vulcabras Azaleia CE, Calçados e Artigos Esportivos S.A	**Vulcabras Azaleia BA, Calçados e Artigos Esportivos S.A.**	**Vulcabras Azaleia SE, Calçados e Artigos Esportivos Ltda.**	**Vulcabras Distribuidora de Artigos Esportivos Ltda.**	**Vulcabras Azaleia RS, Calçados e Artigos Esportivos S.A.**	**Vulcabras Azaleia SP, Comércio de Artigos Esportivos Ltda.**	**Distribuidora de Calçados e Artigos Esportivos Cruzeiro do Sul Ltda.**	**Vulcabras Azaleia S.A.**	**Total**
Tax losses calculated on December 31, 2019	354,753	623,268	125,131	85,021	223,055	288,912	28,646	141,067	1,869,853
Negative basis of social contribution on December 31, 2019	1,123,312	635,291	125,228	85,021	255,842	288,912	28,646	143,182	2,685,433

Compensation of income tax losses and negative basis of social contribution tax may be offset against a maximum of 30% of annual taxable income earned from 1995 onwards, with no statutory limitation period.

10 Judicial deposits

The Company and its subsidiaries have judicial deposits related to civil, labor and tax lawsuits (Note 20), as shown below:

	Consolidated		Parent company	
	12/31/2020	**12/31/2019**	**12/31/2020**	**12/31/2019**
Judicial deposits				
Civil	487	476	20	19
Labor	14,593	17,476	402	401
Tax	-	-	121	119
Total	**15,080**	**17,952**	**543**	**539**

a. Labor

Labor lawsuits refer mainly to requests related to overtime, salary equivalence, health hazard premium, hazardous duty premium, moral damages and occupational illness.

Labor judicial deposits refer mostly to amounts deposited in connection with lawsuits and are related to extraordinary appeals, motions to review, security deposits and online pledges of part of amounts contained in ongoing labor lawsuits.

b. Civil

Civil lawsuits are mostly related to requests for indemnity in general for property damages and pain and suffering, and also requests related to alleged manufacturing defects. Civil judicial deposits are related to these lawsuits, made to guarantee the discussion of the amounts claimed.

c. Tax

The tax judicial deposits refer to the lawsuits in which the Company and its subsidiaries are defendants, mainly involving the following taxes: IRPJ, COFINS, PIS, ICMS.

11 Related party transactions

The main balances of assets and liabilities as of December 31, 2020 and 2019, as well as the transactions that influenced income (loss) for the period, relating to operations with related parties, result from transactions of the Company with its subsidiaries in Colombia, Brazil and Peru besides loan transactions with subsidiaries.

Loan agreements are restated at the DI-CETIP rate.

a. Parent company and final parent company

The Company's parent company is Gianpega Negócios e Participações S.A. The ultimate parent company is Mr. Pedro Grendene Bartelle.

b. Transactions with parent company

The transactions between the parent company and its subsidiaries, which are eliminated for consolidation purposes, were carried out under conditions and terms agreed between the parties, as follows:

	Vulcabras Azaleia CE	Vulcabras Distribuidora	Vulcabras Azaleia BA	12/31/2020	12/31/2019
Assets					
Loans - subsidiaries	-	120,602	-	120,602	-
Liabilities					
Loan agreement with subsidiaries (*)	150,609	-	47,154	197,763	-
Income (loss)					
Financial income (loss)	(609)	602	(154)	(161)	(289)

(*) Loan agreements are restated at 100% of CDI rate and have no incidence of Tax on Financial Operations (IOF), pursuant to Decree 10504/2020. The agreements are effective for five years.

c. Transactions between subsidiaries

Vulcabras Azaleia CE, Calçados e Artigos Esportivos S.A. and subsidiaries

The subsidiary Vulcabras Azaleia CE, Calçados e Artigos Esportivos S.A. carries out transactions with its subsidiaries involving purchase and sale transactions and loans to cover temporary cash requirements, which are subject to charges related to changes in the CDI rate, and are comprised as follows:

	Vulcabras Azaleia RS	Globalcyr	Calzados Azaleia Colombia	Calzados Azaleia Peru.	Vulcabras Azaleia SP.	Vulcabras Distribuidora	Vulcabras Azaleia BA	Vulcabras Azaleia SE	Distribuidora Cruzeiro do Sul	12/31/2020	12/31/2019
Assets											
Accounts receivable	-	-	2,040	173	38,625	-	701	-	904	42,443	8,894
Other receivables	-	-	-	-	131	243	2,075	-	120	2,569	5,724
Liabilities											
Accounts payable	-	-	-	-	-	90	60	-	-	150	2,776
Other debits	-	-	-	-	-	-	19	-	-	19	20,729
Income (loss)										**12/31/2020**	**12/31/2019**
Financial income (loss)	(93)	8	-	-	-	-	-	-	-	(85)	342
Intercompany sale	-	-	1,654	3,578	39,687	-	14,250	81	2,078	61,328	50,530
Intercompany purchase	-	-	-	-	-	(1,313)	(8,972)	(26)	(125)	(10,436)	(9,946)

Related party balances are eliminated for the purpose of consolidated presentation. The main type of the transactions is the purchase and sale of shoes and apparel.

d. Management remuneration

At the Ordinary General Meeting held on July 24, 2020, the Company established the annual overall remuneration of the Directors at up to R$ 12,788. In the year ended December 31, 2020, the Company paid Directors' fees totaling R$ 10,977 (R$ 10,713 as of December 31, 2019).

The Company's directors have no loans, advances or other transactions than their normal services with the Company and its subsidiaries.

As of December 31, 2020 and 2019, the Company and its subsidiaries did not pay the key management personnel in relation to the categories: a) Long-term benefits; b) Benefits on termination of employment contract; and c) share-based payment

e. Other related party transactions

Vulcabras Azaleia CE, Calçados e Artigos Esportivos S.A. through its indirect subsidiary Vulcabras Azaleia BA, Calçados e Artigos Esportivos S.A. has loan payable to Brisa Indústria de Tecidos Tecnológicos S.A. in the amount of R$ 17,632 as of December 31, 2020 (R$ 16,930 as of December 31, 2019), remunerated at 4% p.a. (4% p.a. and TJLP + 2% p.a. as of December 31, 2019).

12 Investments

a. Breakdown of the balance

	Consolidated		**Parent company**	
	12/31/2020	**12/31/2019**	**12/31/2020**	**12/31/2019**
Permanent equity interests, net of losses:				
In subsidiaries	-	-	1,114,914	1,076,742
In associated companies	59,999	62,046	-	-
Provision for loss with investment	-	-	(124)	(95)
Total	**59,999**	**62,046**	**1,114,914**	**1,076,742**

The subsidiary Vulcabras Azaleia BA, Calçados e Artigos Esportivos S.A. holds an interest of 50% as of December 31, 2020 (50% as of December 31, 2019) in the associated company PARS Participações Ltda., which holds 100% as of December 31, 2020 (100% as of December 31, 2019) of Brisa Indústria de Tecidos Tecnológicos S.A. Considering that the Company only has significant influence, this investment is not consolidated in the financial statements under the terms of CPC 36 (R3) / IFRS 10 - Consolidated Statements.

b. Changes in investments

	Consolidated		Parent company	
	12/31/2020	**12/31/2019**	**12/31/2020**	**12/31/2019**
Opening balances	62,046	61,754	1,076,742	939,300
Equity in net income of subsidiaries	(2,047)	292	33,319	135,389
Exchange differences from translation of foreign operations	-	-	4,648	2,017
Financial assets at fair value through other comprehensive income (FVTOCI)	-	-	185	2
Write-off of investment	-	-	-	8
Increase in investee’s interest	-	-	20	26
Closing balances	59,999	62,046	1,114,914	1,076,742

c. Information on direct interest - Parent company

	Vulcabras Azaleia CE, Calçados e Artigos Esportivos S.A.		Vulcabras Distribuidora de Artigos Esportivos Ltda.		Vulcabras Azaleia Administracíon S.A.		Globalcyr S.A.		Total	
	12/31/2020	**12/31/2019**	**12/31/2020**	**12/31/2019**	**12/31/2020**	**12/31/2019**	**12/31/2020**	**12/31/2019**	**12/31/2020**	**12/31/2019**
Total assets	1,550,825	1,248,255	205,833	51,941	-	-	2	1	-	-
Total liabilities	435,849	171,451	175,311	35,269	-	-	8,030	6,150	-	-
Capital	1,363,676	1,363,676	96,045	86,045	-	-	1,056	1,056	-	-
Net revenue	693,214	790,850	100,359	71,406	-	-	-	-	-	-
Income (loss) for the year	33,312	135,431	3,850	(15,995)	-	(86)	(100)	(76)	-	-
Number of shares/quotas held (per thousand shares/quotas)	537,467	537,467	200	200	-	-	10	10	-	-
Equity	1,114,976	1,076,804	30,522	16,672	-	-	(8,028)	(6,148)	-	-
Interest in capital at the end of the year - %	99.99%	99.99%	0.22%	0.23%	-	3.96%	1.54%	1.54%	-	-
Permanent ownership interest in subsidiaries	1,114,971	1,076,798	67	39	-	-	-	-	1,115,038	1,076,837
Provision for liabilities for loss on investment	-	-	-	-	-	-	(124)	(95)	(124)	(95)
Equity in net income of subsidiaries	33,312	135,430	8	(37)	-	(3)	(1)	(1)	33,319	135,389

d. Information on indirect interest

As of December 31, 2020 and December 31, 2019, the Company has indirect interest in companies listed below by means of its subsidiaries Vulcabras Azaleia CE, Calçados e Artigos Esportivos S.A. and Vulcabras Azaleia RS, Calçados e Artigos Esportivos S.A:

(i) Vulcabras Azaleia CE, Calçados e Artigos Esportivos S.A.

12/31/2020	**Vulcabras Azaleia RS, Calçados e Artigos Esportivos S.A.**	**Vulcabras Distribuidora de Artigos Esportivos Ltda.**	**Vulcabras Azaleia SP, Comércio de Artigos Esportivos Ltda.**	**Globalcyr S.A.**	**Vulcabras Azaleia BA, Calçados e Artigos Esportivos S.A.**	**Distribuidora de Calçados e Artigos Esportivos Cruzeiro do Sul Ltda. (*)**	**Calzados Azaleia de Colômbia Ltda.**	**Calzados Azaleia Peru S.A.**	**PARS Participações Ltda.**
Total assets	-	205,833	99,350	2	450,982	17,160	12,752	57,757	119,441
Total liabilities	-	175,311	68,842	8,030	109,073	27,834	20,787	23,380	1
Capital	-	96,045	402,984	1,056	459,929	26,207	841	1,072	36,116
Equity	-	30,522	30,508	(8,028)	341,909	(10,674)	(8,035)	34,377	119,440
Net revenue	1,538	100,359	73,523	-	374,063	21,429	14,092	42,288	-
Income (loss) for the year	26,503	3,850	(31,196)	(100)	44,430	(6,584)	(4,065)	(4,083)	(4,094)
Equity interest	100.00%	99.78%	100.00%	98.45%	100.00%	100.00%	100.00%	99.11%	50.00%

12/31/2019	**Vulcabras Azaleia RS, Calçados e Artigos Esportivos S.A.**	**Vulcabras Distribuidora de Artigos Esportivos Ltda.**	**Vulcabras Azaleia SP, Comércio de Artigos Esportivos Ltda.**	**Globalcyr S.A.**
Total assets	399,239	51,941	92,416	1
Total liabilities	40,634	35,269	30,712	6,150
Capital	503,549	86,045	402,984	1,056
Equity	358,605	16,672	61,704	(6,148)
Net revenue	1,755	71,406	77,672	-
Income (loss) for the year	49,790	(15,995)	12,529	(76)
Equity interest	100.00%	99.73%	100.00%	98.45%

(*) Indirect interest

(ii) Vulcabras Azaleia RS, Calçados e Artigos Esportivos S.A.

12/31/2019	Vulcabras Azaleia BA, Calçados e Artigos Esportivos S.A.	Vulcabras Azaleia SE, Calçados e Artigos Esportivos Ltda.	Distribuidora de Calçados e Artigos Esportivos Cruzeiro do Sul Ltda. (*)	Calzados Azaleia de Colômbia Ltda.	Calzados Azaleia Peru S.A.	PARS Participações Ltda.
Total assets	365,189	78,790	14,080	13,471	43,396	123,535
Total liabilities	67,788	37,661	18,169	16,017	11,903	1
Capital	459,929	92,404	26,207	841	1,072	36,116
Equity	297,401	41,129	(4,090)	(2,547)	31,492	123,534
Net revenue	369,507	79,038	21,562	18,033	63,406	-
Income (loss) for the year	39,555	12,538	(4,546)	(2,039)	1,546	583
Interest in capital	100.00%	100.00%	100.00%	100.00%	99.11%	50.00%

(*) Indirect interest

13 Investment property

a. Breakdown of account

	Consolidated		Parent company	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019
Buildings	10,624	10,624	10,574	10,574
Depreciation (*)	(8. 503)	(8,094)	(8,459)	(8,052)
Overall total	2,121	2,530	2,115	2,522

(*) Depreciation is calculated under the straight-line method at an average annual rate of 4% (4% as of December 31, 2019), charged to administrative expenses.

b. Changes in depreciation

	Consolidated		
	Balance at 12/31/2019	Additions	Balance at 12/31/2020
Buildings	(8,094)	(409)	(8,503)
Total	(8,094)	(409)	(8,503)

The Company has a property primarily used for rental in Jundiaí - São Paulo, occupying 40,994.00 m² of built-up and common area, with the respective plot of land occupying 111,547.06 m² classified as investment property. The real estate property is evaluated at the cost method and at fair value as evaluation of specialized companies which is R$ 67,240 as of December 31, 2020 (R$ 67,400 as of December 31, 2019).

In the year ended December 31, 2020 the real estate earned an revenue from rental in the amount of R$ 5,020 (R$ 4,766 as of December 31, 2019) - Note 26, recorded in other operating revenues, net - Revenue from rental. Clauses four, seven and eight of the rental agreement stipulate obligations to maintain and repair the real estate's structure by the Company, where this amount is prorated proportionally to the rented area. The tenants are responsible for the costs deriving from maintenance and wear and tear. The Company did not make structural changes in the real estate during the year ended December 31, 2020.

The fair value measurement of the investment properties was classified as Level 3 based on the adopted inputs.

14 Property, plant and equipment

a. Breakdown of account

December 31, 2020

		Consolidated					
		12/31/2020			**12/31/2019**		
	Average rate of depreciation % p.a.	**Cost**	**Depreciation**	**Net**	**Cost**	**Depreciation**	**Net**
Buildings	2– 4	130,375	(87,487)	42,888	127,881	(83,552)	44,329
Machinery and equipment	10	362,699	(270,166)	92,533	362,297	(276,247)	86,050
Molds	100	262,557	(250,588)	11,969	272,492	(249,011)	23,481
Furniture and fixtures	10–20	32,131	(23,665)	8,466	32,099	(23,541)	8,558
Vehicles	20	2,241	(1,939)	302	2,258	(1,918)	340
IT equipment	20–25	28,606	(22,771)	5,835	27,810	(22,058)	5,752
Land	-	3,486	-	3,486	3,490	-	3,490
Works in progress	-	3,541	-	3,541	-	-	-
Facilities	10	127,027	(62,652)	64,375	112,686	(54,327)	58,359
Leasehold improvements	10–20	89	(89)	-	89	(89)	-
Imports in transit	-	5,309	-	5,309	2,279	-	2,279
Leasehold Improvements	20	1,524	(664)	860	3,537	(2,459)	1,078
Other	10–20	3,356	(1,609)	1,747	2,463	(1,059)	1,404
		962,941	**(721,630)**	**241,311**	**949,381**	**(714,261)**	**235,120**

b. Changes in cost

December 31, 2020	**Consolidated**										
	12/31/2018	**12/31/2019**					**12/31/2020**				
	Opening balance	**Additions**	**Write-offs**	**Transfer**	**Translation adjustment**	**Closing balance**	**Additions**	**Write-offs**	**Transfer**	**Translation adjustment**	**Closing balance**
Buildings	126,647	1,078	-	-	156	127,881	828	-	-	1,666	130,375
Machinery and equipment	343,117	12,878	(12,982)	19,284	-	362,297	10,145	(27,926)	18,183	-	362,699
Molds	234,741	43,142	(7,906)	2,515	-	272,492	22,720	(33,195)	540	-	262,557
Furniture and fixtures	29,357	2,839	(183)	-	86	32,099	1,459	(2,076)	-	649	32,131
Vehicles	2,198	101	(54)	-	13	2,258	115	(238)	1	105	2,241
IT equipment	26,040	1,823	(169)	-	116	27,810	1,579	(1,766)	-	983	28,606
Land	3,490	-	-	-	-	3,490	-	(5)	1	-	3,486
Molds in progress	318	4,148	(1,994)	(2,472)	-	-	740	(199)	(541)	-	-
Works in progress	208	752	(986)	-	26	-	4,182	(719)	-	78	3,541
Facilities	86,915	26,085	(314)	-	-	112,686	18,147	(3,806)	-	-	127,027
Leasehold improvements	89	-	-	-	-	89	-	-	-	-	89
Imports in transit	2,076	22,356	(2,826)	(19,327)	-	2,279	24,884	(3,670)	(18,184)	-	5,309
Leasehold improvements	3,212	325	-	-	-	3,537	79	(2,092)	-	-	1,524
Other	2,374	431	(408)	-	66	2,463	203	-	-	690	3,356
	860,782	**115,958**	**(27,822)**	**-**	**463**	**949,381**	**85,081**	**(75,692)**	**-**	**4,171**	**962,941**

c. Changes in depreciation

December 31, 2020	Consolidated										
	12/31/2018	12/31/2019					12/31/2020				
	Opening balance	Additions	Write-offs	Transfer	Translation adjustment	Closing balance	Additions	Write-offs	Transfer	Translation adjustment	Closing balance
Buildings	(80,015)	(3,491)	-	-	(46)	(83,552)	(3,561)	-	-	(374)	(87,487)
Machinery and equipment	(274,329)	(13,422)	11,503	-	1	(276,247)	(14,399)	20,481	-	(1)	(270,166)
Molds	(216,358)	(38,256)	5,603	-	-	(249,011)	(32,218)	30,641	-	-	(250,588)
Furniture and fixtures	(22,159)	(1,416)	78	-	(44)	(23,541)	(1,444)	1,677	-	(357)	(23,665)
Vehicles	(1,805)	(158)	54	-	(9)	(1,918)	(144)	205	-	(82)	(1,939)
IT equipment	(20,593)	(1,541)	145	-	(69)	(22,058)	(1,736)	1,566	-	(543)	(22,771)
Facilities	(47,227)	(7,101)	1	-	-	(54,327)	(9,522)	1,197	-	-	(62,652)
Leasehold improvements	(89)	-	-	-	-	(89)	-	-	-	-	(89)
Leasehold improvements	(2,181)	(278)	-	-	-	(2,459)	(292)	2,087	-	-	(664)
Other	(1,023)	(186)	182	-	(32)	(1,059)	(254)	1	-	(297)	(1,609)
	(665,779)	**(65,849)**	**17,566**	**-**	**(199)**	**(714,261)**	**(63,570)**	**57,855**	**-**	**(1,654)**	**(721,630)**

Interest on loans and financings was not capitalized in the cost of construction in progress since the main contracts are related to acquisitions of machinery and equipment immediately placed in service.

Every year, the Company and its subsidiaries review the useful life of fixed asset items. The Company and its subsidiaries have a policy of maintaining the main fixed assets items until the end of their useful lives.

15 Intangible assets

a. Breakdown of account

December 31, 2020		**Consolidated**					
		12/31/2020			**12/31/2019**		
Defined useful life	**Useful life**	**Cost**	**Amortization**	**Net**	**Cost**	**Depreciation**	**Net**
Software	5 years	39,040	(32,218)	6,822	36,413	(30,421)	5,992
Assignment of right	Contractual period	531	(391)	140	391	(280)	111
Goodwill	Contractual period	1,873	-	1,873	10,976	-	10,976
Provision for impairment (*)	Contractual period	(199)	-	(199)	(4,047)	-	(4,047)
Undefined useful life							
Trademarks and patents		2,067	-	2,067	2,194	-	2,194
Goodwill		198,214	-	198,214	198,214	-	198,214
		241,526	**(32,609)**	**208,917**	**244,141**	**(30,701)**	**213,440**

The amortization of intangible assets is recorded as a counterparty to (loss) in the group of cost of sales (industrial software) and selling expenses (assignment of rights).

(*) The provision for impairment refers to impairment of goodwill in stores of the subsidiary Vulcabras Azaleia SP.

b. Changes in cost

December 31, 2020

	Useful life	Amortization methods	Balance at 12/31/2019	Additions	Write-offs	Translation adjustment	Balance at 12/31/2020
					Consolidated		
Defined useful life							
Software	5 years	Straight-line	36,413	2,588	(264)	303	39,040
Assignment of right	Contractual period	Straight-line	391	42	-	98	531
Goodwill (*)	Contractual period	Straight-line	10,976	-	(9,103)	-	1,873
Impairment of goodwill	Contractual period	Straight-line	(4,047)	-	3,848	-	(199)
Undefined useful life							
Trademarks and patents (**)			2,194	-	(127)	-	2,067
Goodwill			198,214	-	-	-	198,214
Total			244,141	2,630	(5,646)	401	241,526

(*) As of December 31, 2020, we disposed of two stores in the amount of R$ 9,103, whose consequences affected the provision for impairment in the amount of R$ 3,848.

(**) The decrease of R$ 127 refers to the sale of the Dijean brand, as disclosed in note 1.1.5.

December 31, 2019

	Useful life	Amortization methods	Balance at 12/31/2018	Additions	Write-offs	Translation adjustment	Balance at 12/31/2019
					Consolidated		
Defined useful life							
Software	5 years	Straight-line	33,009	3,371	-	33	36,413
Assignment of right	Contractual period	Straight-line	625	61	(287)	(8)	391
Goodwill	Contractual period	Straight-line	10,976	-	-	-	10,976
Impairment of goodwill	Contractual period	Straight-line	(4,047)	-	-	-	(4,047)
Undefined useful life							
Trademarks and patents			2,187	7	-	-	2,194
Goodwill			198,214	-	-	-	198,214
Total			240,964	3,439	(287)	25	244,141

c. Changes in amortization

December 31, 2020

	Useful life	Amortization methods	Balance at 12/31/2019	Additions	Write-offs	Translation adjustment	Balance at 12/31/2020
					Consolidated		
Defined useful life							
Software	5 years	Straight-line	(30,421)	(1,792)	130	(135)	(32,218)
Assignment of right	Contract Term	Straight-line	(280)	(47)	-	(64)	(391)
Total			(30,701)	(1,839)	130	(199)	(32,609)

December 31, 2019

				Consolidated			
Defined useful life	**Useful life**	**Amortization methods**	**Balance at 12/31/2018**	**Additions**	**Write-offs**	**Translation adjustment**	**Balance at 12/31/2019**
Software	5 years	Straight-line	(28,638)	(1,785)	18	(16)	(30,421)
Assignment of right	Contract Term	Straight-line	(519)	(59)	294	4	(280)
Total			(29,157)	(1,844)	312	(12)	(30,701)

d. Goodwill in business combination

The balances of goodwill determined in the acquisitions of ownership interest in subsidiary Vulcabras Azaleia CE, are supported by reports issued by independent experts and are based on the expectation of future profitability of the acquired operations; in 2009, goodwill balances ceased to be amortized since these are assets with indefinite useful lives, as established by CVM Resolution 553/08 and CPC 01 (R1), and are annually tested for impairment, as described in Note 16.

16 Recoverability analysis of tangible and intangible assets

a. Tangible and intangible assets with defined useful life

Management reviews annually the net book value of tangible and intangible assets with defined useful life to assess events or changes in economic, operating or technological circumstances that might indicate an impairment of assets.

For the year ended December 31, 2020, an impairment test of tangible and intangible assets with finite useful lives was carried out by means of calculation of the value in use based on cash projections from financial budgets approved by the Top Management.

No indication of impairment on December 31, 2020.

b. Goodwill paid on expected future profitability

The balance of goodwill on acquisitions of ownership interest is based on expected future profitability of the acquired business and amounts to R$ 198,214 at December 31, 2020 (R$ 198,214 as of December 31, 2019).

The Company annually tests impairment of its intangible assets with indefinite useful life, which are mostly comprised of goodwill for expected future earnings arising from combination of business processes using the “Value in use” concept by means of discounted cash flow models.

The goodwill arising from the acquisition of investment is impairment tested every year, at the cash generating unit level.

c. Main assumptions used in impairment tests of tangible and intangible assets

For the purposes of impairment test of tangible and intangible assets, there is no possibility of separating a Cash Generating Unit (CGU) and defining it as the exclusive cash generating unit due to the purchase of Azaleia. Since the acquisition, the operations of the two companies were merged and it became impossible to distinguish what are the revenues generated by virtue of the exclusive assets acquired in the purchase of Azaleia. Thus, the Company and its subsidiaries are considered as a single Cash Generating Unit.

Future cash flows were discounted based on the rate representing the capital cost. Following the techniques of economic valuation, the assessment of value in use is carried out for a period of 10 years and, thereafter, considering the perpetuity of the assumptions based on the ability of the company to continue as a going concern for the foreseeable future.

For discounting the future cash flows, the rate used was 7.73%. p.a. as of December 31, 2020 (8.54% p.a. as of December 31, 2019).

The estimate of value in use considered the following assumptions:

Revenues
The sales volume and price were projected on a real basis (without inflation) based on the Company's estimates and result in aggregate compound growth (CAGR) of 9.34% p.a. as of December 31, 2020 (3.39% as of December 31, 2019) between 2020 and 2030. The change in relation to the previous year is discussed in Note 1.1.2.(iv).

Cost
The cost of sold products was projected based on the Company's estimates.

After establishing the sales projection, the production requirement distribution was defined according to the installed capacity and the efficiency level to be obtained.

Other manufacturing overheads were based on the budget approved by the Top Management for the indirect cost centers.

Expenses
Variable sales expenses were projected based on historical percentages of the gross operating revenue.

The administrative and general sales expenses were based on the expenditures budgeted and approved by the Top Management for the cost centers.

Net income and Free Cash Generation
Net income resulting from the application of the above assumptions grows with a compounded growth rate (CAGR) of 34.50% p.a. (8.35% p.a. as of December 31, 2019) between 2020 and 2030. The lower value of the initial base (year 2020 - see note 1.1.2 IV) and the gain with the acquisition of the Mizuno operation significantly influenced the Compound Annual Growth Rate (CAGR) for the period.

Free Cash Flow Generation is then calculated based on projections of investments and changes in working capital. For perpetuity, the growth rate used is zero.

The value in use was higher than the book value by approximately R$ 3,755 billion as of December 31, 2020 (R$ 2,804 billion as of December 31, 2019).

17 Suppliers

a. Breakdown of account

	Consolidated		Parent company	
	12/31/2020	**12/31/2019**	**12/31/2020**	**12/31/2019**
Suppliers				
Domestic				
Sundry	56,355	38,374	289	1,088
Abroad				
Sundry	6,102	2,619	-	-
	62,457	40,993	289	1,088

b. Per maturity

	Consolidated	
	12/31/2020	**12/31/2019**
Falling due (days):		
01–30	51,198	31,927
31–60	8,603	7,326
61–90	1,245	730
>90	1,397	1,000
	62,443	40,983
Overdue (days):		
01–30	14	10
	14	10
	62,457	40,993

Considering the characteristics of the Company's products and the supply chain, there is a wide offer of raw materials, supplies and suppliers. Thus, the Company does not present a concentration of the supplier portfolio.

In compliance with CVM Resolution 564 issued December 17, 2008, which approved CPC 12, the Company conducted studies to calculate the adjustment to present value of its current liabilities. Considering the average term of payment of these liabilities of approximately 37 days as of December 31, 2020 (39 days at December 31, 2019), the effects of present value adjustments were considered immaterial and, therefore, were not recognized in income (loss), as occurred with current assets and non-current assets.

18 Loans and financing

a. Breakdown of account

	Interest rate 2020	Interest rates for 2019	Consolidated 12/31/2020	12/31/2019
Local currency				
Fixed assets	IPCA + 2.04% p.a.	IPCA + 2.04% p.a.	77,561	40,679
Tax incentive	TJLP	TJLP	2,276	2,374
Working capital	IPCA + 2.07% p.a./ CDI + 3.05–3.55% p.a. / 180% CDI p.a.	-	205,221	-
			285,058	**43,053**
Foreign currency				
Export financing				
Finimp	Fixed rate 7.10–7.20% p.a.	-	16,451	-
Working capital	Fixed rate 1.18% p.a.	.	10,120	-
			26,571	**-**
Total loans and financing			**311,629**	**43,053**
Current			127,894	3,264
Non-current			183,735	39,789

As of December 31, 2020 and December 31, 2019, installments related to the principal of loans and financing had the following maturities:

	12/31/2020		12/31/2019	
Maturity	**Amount**	**%**	**Amount**	**%**
Current	**127,894**	**41%**	**3,264**	**8%**
2020	-	0%	3,264	8%
2021	127,894	41%	7,568	18%
2022	93,056	30%	7,519	16%
2023	55,819	18%	6,737	16%
2024	13,072	4%	6,737	16%
2025	13,072	4%	6,737	16%
2026	8,715	3%	4,491	10%
Non-current	**183,735**	**59%**	**39,789**	**92%**
Total	**311,629**	**100%**	**43,053**	**100%**

b. Sureties and guarantees

In guarantee of financing, promissory notes, personal guarantee and surety of parent company, mortgage of Horizonte-CE and Itapetinga-BA plants and disposal of machinery and equipment acquired from financing were offered.

c. Covenants

Some financing contracted have covenants that require the Company to demonstrate through document and physical evidences, the purchases of property, plant and equipment and objectives achieved in Research and Development (R&D). These covenants are monitored and have been fully complied with within the deadlines defined in the agreements. We do not have covenants for working capital loans.

d. Reconciliation of equity changes with cash flows from financing activities

	Liabilities			
	Loans and financing	**Loans with related parties**	**Lease liabilities**	**Total**
Balance at January 1, 2020	**43,053**	**16,930**	**15,845**	**75,828**
Changes in cash flow from financing				
Loans obtained - Principal	285,779	-	-	285,779
Loans with related parties	-	702	-	702
Payment of financial lease liabilities	-	-	(9,794)	(9,794)
Payment of loans obtained - Principal	(22,378)	-	-	(22,378)
Total changes in financing cash flows	**263,401**	**702**	**(9,794)**	**254,309**
Other changes related to liabilities				
Interest paid	(5,309)	-	(1,760)	(7,069)
Provin additions (without cash effect)	675	-	-	675
Contractual additions/adjustments	-	-	17,000	17,000
Lease discounts	-	-	(1,373)	(1,373)
Accrued interest	-	-	2,835	2,835
Write-off of lease	-	-	(4,223)	(4,223)
Financial charges recognized in profit or loss	9,809	-	-	9,809
Total other changes related to liabilities	5,175	-	12,479	17,654
Balance at December 31, 2020	**311,629**	**17,632**	**18,530**	**347,791**

	Liabilities			
	Loans and financing	**Loans with related parties**	**Lease liabilities**	**Total**
Balance at January 1, 2019	**60,006**	**16,259**	**28,417**	**104,682**
Changes in cash flow from financing				
Loans obtained - Principal	4,793	-	-	4,793
Loans with related parties	-	671	-	671
Payment of financial lease liabilities	-	-	(12,572)	(12,572)
Payment of loans obtained - Principal	(22,810)	-	-	(22,810)
Total changes in financing cash flows	**(18,017)**	**671**	**(12,572)**	**(29,918)**
Other changes related to liabilities				
Interest paid	(2,218)	-	-	(2,218)
Provin additions (without cash effect)	770	-	-	770
Financial charges recognized in profit or loss	2,512	-	-	2,512
Total other changes related to liabilities	1,064	-	-	1,064
Balance at December 31, 2019	**43,053**	**16,930**	**15,845**	**75,828**

19 Leases

a. Operational leases (*)

	Consolidated	
	12/31/2020	**12/31/2019**
Right-of-use		
Opening balance	15,845	-
First-time adoption - IFRS 16	-	23,357
Additions / Adjustments	14,965	5,060
Write-off	(4,162)	-
Amortization (**)	(11,503)	(12,572)
Closing balance	**15,145**	**15,845**

	Consolidated	
	12/31/2020	**12/31/2019**
Lease liabilities		
Opening balance	15,845	-
Additions / Adjustments	17,000	28,417
Accrued interest	2,835	-
Write-off	(4,223)	-
Payment of principal (***)	(11,167)	(12,572)
Interest	(1,760)	-
Closing balance	**18,530**	**15,845**
Current	8,343	7,798
Non-current	10,187	8,047

(*) The rate of housing loans published by the Central Bank of Brazil in December 2018 was used; i.e. 0.77% per month. The average of all financial institutions was considered.

(**) In the amortization recognized in the income (loss), we had a lower amount of R$ 10,130 due to the granting of discounts of R$ 1,373, based on the practical expedient of CPC 06/IFRS 16.

(***) The discount of R$ 1,373 that deducts the payment amount presented in the Consolidated Financial Statements has no effect on the write-off of the lease liability.

Payment schedule for long-term installments

	12/31/2020		12/31/2019	
Maturity	**Amount**	**%**	**Amount**	**%**
2021	-	0%	4,726	59%
2022	5,993	59%	2,616	32%
2023	2,465	24%	705	9%
2024	1,190	12%	-	0%
2025	539	5%	-	0%
Total	**10,187**	**100%**	**8,047**	**100%**

Extension options

A few leases contain extension options exercisable by the Company up to one year prior to the end of the non-cancellable agreement period. Whenever possible, the Company seeks to include extension options in new leases so as to provide operating flexibility.

20 Provisions

The Company and its subsidiaries are parties (defendants) to judicial and administrative proceedings in various courts and governmental agencies, arising from the normal course of operations, involving tax, labor, civil and other matters.

Based on information from its legal advisors, Management recognizes provisions in accordance with the procedures established by CVM Resolution 489/05 and CPC 25/IAS 37, which establishes that a provision should be recognized when: (i) the entity has a present obligation deriving from a past event; (ii) an outflow of funds will probably be required to settle the obligation; and (iii) the sum of the obligation can be estimated with sufficient assurance. If any of these conditions are not met a provision should not be made, and it might be necessary to disclose a contingent liability.

The review of pending legal proceedings, based on previous experience relating to amounts claimed, records a provision in an amount deemed sufficient to cover possible losses from the ongoing lawsuits and classified them as current and non-current, as follows:

a. Breakdown of balances

	Consolidated		Parent company	
	12/31/2020	**12/31/2019**	**12/31/2020**	**12/31/2019**
Provisions for lawsuits and administrative proceedings:				
Civil	18,919	20,107	82	510
Labor	36,982	36,254	507	229
Tax	662	148	176	119
Total	**56,563**	**56,509**	**765**	**858**
Current	**22,021**	**18,326**	**765**	**405**
Non-current	**34,542**	**38,183**	**-**	**453**

b. Labor lawsuits (Consolidated)

Refer mainly to claims regarding overtime, salary differences, health hazard, hazardous duty and occupational disease. The effect of the provision for loss on labor lawsuits is recorded as contra-entry to profit or loss in the account of other expenses.

c. Civil lawsuits (Consolidated)

Refer to compensation for property damages and pain and suffering. The effect of the provision for loss on civil lawsuits is recorded as contra-entry to profit or loss in the account of other expenses.

The effects on the provision for indemnities are charged to “selling expenses” in income (loss).

d. Tax lawsuits (Consolidated)

They refer to lawsuits in which the Companies and its subsidiaries are parties mainly to the following taxes: IRPJ, COFINS, PIS and ICMS. The effect of the provision for loss on tax lawsuits is recorded as contra-entry to profit or loss in the account of other expenses.

e. Movement of the proceedings

December 31, 2020 — **Consolidated**

	12/31/2018	12/31/2019					12/31/2020				
Nature	**Opening balance**	**Additions**	**Reversal**	**Payment**	**Adjustment to net presentation (**)**	**Closing balance**	**Additions**	**Reversal**	**Payment**	**Adjustment to net presentation (**)**	**Closing balance**
Civil	20,250	74	(187)	(30)	-	20,107	1,210	(2,206)	(192)	-	18,919
Labor	51,282	19,798	(14,476)	(7,719)	(12,631)	36,254	5,136	(4,618) **(*)**	(1,336)	1,546	36,982
Tax	9,480	9,174	(1,344)	(1,743)	(15,419)	148	802	(215)	(1,137)	1,064	662
Total	**81,012**	**29,046**	**(16,007)**	**(9,492)**	**(28,050)**	**56,509**	**7,148**	**(7,039)**	**(2,665)**	**2,610**	**56,563**

December 31, 2020 — **Parent company**

	12/31/2018	12/31/2019				12/31/2020			
Nature	**Opening balance**	**Additions**	**Reversal**	**Payment**	**Closing balance**	**Additions**	**Reversal**	**Payment**	**Closing balance**
Civil	529	43	(25)	(37)	510	63	(453)	(38)	82
Labor	302	92	(19)	(146)	229	371	-	(93)	507
Tax	109	693	(222)	(461)	119	57	-	-	176
Total	**940**	**828**	**(266)**	**(644)**	**858**	**491**	**(453)**	**(131)**	**765**

(*) The Company wrote-off R$ 7,691 due to the sale of indirect subsidiary Vulcabras Azaleia SE as of March 31, 2020.

(**) The net amounts refer only to reclassifications between judicial deposits and provisions for contingencies in compliance with item 35 of CPC 26 (IAS 1). Thus, said amounts had no cash effect and were not considered in the Statements of cash flows.

Contingencies

Based on the opinion of its legal advisors, Management believes that the resolution of the civil, labor and tax matters listed below will not have a material adverse effect on its financial situation.

As of December 31, 2020 and December 31, 2019, the breakdown of the amounts under litigation at various court levels, estimated with a possible loss was as follows:

	Consolidated	
	12/31/2020	**12/31/2019**
Contingencies		
Civil	2,149	2,326
Labor	41,006	40,826
Tax	37,051	35,171
Total	80,206	78,323

There was no material lawsuit in 2020.

21 Equity (Parent company)

a. Capital

As of December 31, 2020, capital totals R$ 1,106,717 (R$ 1,106,717 as of December 31, 2019), is represented by 245,756,346 (245,756,346 as of December 31, 2019) common, nominative shares with no par value.

By means of Board of Directors' resolution, the Company is authorized to increase the capital, regardless of any amendments to the bylaws up to the limit of R$ 2,000,000.

b. Reserves

(i) Revaluation reserve

The reserve was constituted as a result of the revaluations of fixed assets of its subsidiaries, based on an appraisal report prepared by independent appraisers. Corresponding income tax and social contribution are classified in non-current liabilities. As of December 31, 2020, the balance of revaluation reserve is R$ 4,670 (R$ 5,532, on December 31, 2019).

The revaluation reserve is being realized by depreciation or write-off of revalued assets against accumulated losses, net of tax effects. As permitted by Law 11638/07, Management elected to maintain the revaluation reserves until their full realization.

c. Capital reserve

(i) Stock option

General conditions

The Company has 3 (three) Stock Option Plans in effect.

1st Stock Option Plan

Approval of the plan
On January 16, 2018 the Board of Directors approved the first granting of options under the Stock Option Contract. The total options granted on this date amounted to 835,000 options, with a unit strike price of R$ 9.50, distributed amongst the elected beneficiaries. Aiming to fulfill the exercise of options granted, the Company may issue new shares within the authorized capital limit, excluding the preemptive right of the current Company's shareholders, as allowed by article 171, paragraph 3, of Law 6404, dated December 15, 1976.

Characteristics of the plan

1st Stock Option Plan - 2018	**1st granting**
Grant date	01/16/2018
Quantity of options granted	835,000
Vesting period	3 years
Maturity for the year	03/31/2021
Maximum period for exercise	03/31/2022
Strike price	R$ 9.50 **(1)**
Beneficiaries (employees)	24 **(2)**

(1) The strike price is set at R$ 9.50 (nine reais and fifty cents), restated by the change in the National Amplified Consumer Price Index - IPCA from the award date through the effective exercising of the Option.

(2) Originally, 24 employees qualified for the 1st stock option plan, but on 12/31/2020 due to the separation of 06 employees, the total is 18 beneficiaries.

Beneficiaries
Stock options can be awarded to officers (statutory or otherwise), division managers and employees of Vulcabras Azaleia S.A. and the companies under its direct or indirect control (Subsidiaries), including in relation to new employees, all of which are subject to the approval of the Company's Board of Directors.

Pricing Method
The method used for options pricing is the "Black-Scholes" model, which uses the following basic assumptions: grant price, strike price, grace period, volatility of share price, percentage of distributed dividends, and risk-free rate as basic assumptions.

2nd Stock Option Plan

Approval of the plan
On May 06, 2019, the Board of Directors approved the 2nd stock option plan in the context of the Grant Agreement. The total options granted on this date were 780,000 options, with unit strike price of R$ 7.96, distributed among the qualified beneficiaries. Aiming to fulfill the exercise of options granted, the Company may issue new shares within the authorized capital limit, excluding the preemptive right of the current Company's shareholders, as allowed by article 171, paragraph 3, of Law 6404, dated December 15, 1976.

Characteristics of the plan

2nd Stock Option Plan - 2019	**2nd granting**
Grant date	05/06/2019
Quantity of options granted	780,000
Vesting period	3 years
Maturity for the year	03/31/2022
Maximum period for exercise	03/31/2023
Strike price	R$ 7.96 **(1)**
Beneficiaries (employees)	22 **(2**)

(1) The strike price is set at R$ 7.96, restated by the change in the National Amplified Consumer Price Index - IPCA from the award date through the effective exercising of the Option.

(2) Originally, 22 employees qualified for the 2nd stock option plan, but on 12/31/2020 due to the separation of 02 employees, the total is 20 beneficiaries.

Beneficiaries

Stock options can be awarded to officers (statutory or otherwise), division managers and employees of Vulcabras Azaleia S.A. and the companies under its direct or indirect control (Subsidiaries), including in relation to new employees, all of which are subject to the approval of the Company's Board of Directors.

Pricing Method

The method used for options pricing is the "Black-Scholes" model, which uses the following basic assumptions: grant price, strike price, grace period, volatility of share price, percentage of distributed dividends, and risk-free rate as basic assumptions.

3rd Stock Option Plan

Approval of the plan

On August 10, 2020, the Board of Directors approved the 3rd stock option plan in the context of the Grant Agreement. The total options granted on this date amounted to 870,000 options, with a unit strike price of R$ 8.57, distributed amongst the elected beneficiaries. Aiming to fulfill the exercise of options granted, the Company may issue new shares within the authorized capital limit, excluding the preemptive right of the current Company's shareholders, as allowed by article 171, paragraph 3, of Law 6404, dated December 15, 1976.

Characteristics of the plan

3rd Stock Option Plan – 2020	**3rd granting**
Grant date	08/10/2020
Quantity of options granted	870,000
Vesting period	3 years
Maturity for the year	03/31/2023
Maximum period for exercise	03/31/2024
Strike price	R$ 8.57 **(1)**
Beneficiaries (employees)	21

(1) The strike price is set at R$ 8.57 (eight reais and fifty-seven cents), restated by the change in the National Amplified Consumer Price Index - IPCA from the award date through the effective exercising of the Option.

Beneficiaries

Stock options can be awarded to officers (statutory or otherwise), division managers and employees of Vulcabras Azaleia S.A. and the companies under its direct or indirect control (Subsidiaries), including in relation to new employees, all of which are subject to the approval of the Company's Board of Directors.

Pricing Method

The method used for options pricing is the "Black-Scholes" model, which uses the following basic assumptions: grant price, strike price, grace period, volatility of share price, percentage of distributed dividends, and risk-free rate as basic assumptions.

Option Plan Expense

Amounts of amortizations recorded as expense in financial statements, as a contra-entry to the Company's equity from grant date to December 31, 2020, are described below (presented in Reais):

Plan	Strike price	Grant date	Accumulated expense 12/31/2020	Accumulated expense 12/31/2019
1st plan – 2018	R$ 9.50	Jan/16/2018	R$ 1,515	R$ 1,042
2nd plan – 2019	R$ 7.96	May/05/2019	R$ 1,019	R$ 475
3rd plan – 2020	R$ 8.57	Aug/06/2020	R$ 500	-
Total			**R$ 3,034**	**R$ 1,517**

d. Equity valuation adjustments

"Equity valuation adjustments" caption includes: (i) accumulated net changes in financial assets at fair value through other comprehensive income until the investments are derecognized or suffer impairment loss; and (ii) accumulated translation adjustments include all foreign currency differences deriving from the translation of financial statements of foreign operations. As of December 31, 2020, the balance of equity valuation adjustment is R$ 21,114 (R$ 16,281, on December 31, 2019).

22 Net sales

	Consolidated	
	12/31/2020	**12/31/2019**
Gross operating revenue		
Sale and resale of goods		
Domestic market	1,310,012	1,494,716
Foreign market	102,205	109,801
Services rendered	1,616	1,756
	1,413,833	1,606,273
Deductions		
Taxes on sales and services rendered	(160,811)	(188,062)
Returns, rebates and prompt-payment discount	(73,795)	(58,226)
	(234,606)	(246,288)
Net operating revenue	**1,179,227**	**1,359,985**

23 Cost of sales and resales

	Consolidated	
	12/31/2020	**12/31/2019**
Raw material	(312,547)	(304,925)
LABOR	(178,510)	(216,068)
Indirect costs	(156,676)	(211,747)
Unallocated indirect cost (*)	(36,384)	-
Resale	(146,928)	(155,444)
Total cost of sales and resales	**(831,045)**	**(888,184)**

(*) The Company classified indirect production costs in the periods from June 30 and September 30, 2020, not allocated to products in the period in which the factories were closed due to government restrictions as "Other Expenses" and is presenting this balance in the financial statements December 31, 2020 as cost of products sold in accordance with CPC 16.38 (IAS 2.38).

24 Sales expenses

	Consolidated	
	12/31/2020	**12/31/2019**
Commissions	(43,698)	(49,693)
Freight	(55,439)	(54,264)
Advertising	(53,119)	(68,958)
Royalties	(3,383)	(2,747)
Personnel expenses	(28,284)	(30,319)
Other expenses	(6,559)	(9,850)
	(190,482)	(215,831)
Impairment losses	(9,593)	(9,013)
Total sales expenses	**(200,075)**	**(224,844)**

25 Administrative expenses

	Consolidated		Parent company	
	12/31/2020	**12/31/2019**	**12/31/2020**	**12/31/2019**
Personnel expenses	(43,494)	(43,949)	(2,512)	(1,937)
Third party services	(27,611)	(24,052)	(2,581)	(2,964)
Rentals	(2,925)	(4,036)	-	-
Travel and accommodation	(326)	(981)	-	-
Security guard	(1,442)	(1,944)	(171)	(192)
Legal disputes and taxes	(2,275)	(2,213)	(552)	(525)
IT and telecommunications	(6,128)	(6,810)	(51)	(65)
Energy, water and sewage	(655)	(1,111)	(11)	(11)
Maintenance, cleaning and environment.	(3,602)	(3,225)	(13)	(12)
Other (*)	(22,103)	(21,309)	(1,371)	(721)
Total administrative expenses	**(110,561)**	**(109,630)**	**(7,262)**	**(6,427)**

(*) The most relevant amounts are comprised of depreciation and amortization, and the lease amortization is due to the impacts of CPC 06 (R2)/IFRS 16, of R$ 10,130 as of December 31, 2020 (R$ 12,572 as of December 31, 2019).

26 Other operating revenues (expenses), net (*)

	Consolidated		Parent company	
	12/31/2020	**12/31/2019**	**12/31/2020**	**12/31/2019**
Rental revenue	5,024	4,784	5,020	4,766
Revenue from sales of power	808	273	-	-
Provision for contingencies	(5,137)	(13,119)	(37)	(561)
Sale of scrap	1,179	1,533	-	-
Net income from sale of fixed assets	(2,007)	549	-	-
Recovery of PIS/COFINS over ICMS	8,686	4,693	-	30
Court-ordered debt payment	797	12,843	-	12,843
Other (**)	(8,553)	(7,411)	451	(389)
	797	**4,145**	**5,434**	**16,689**

(*) In the periods ended June 30, 2020 and September 30, 2020, the Company classified the costs related to the period in which the manufacturing plants were closed due to government restrictions as "Other expenses", and is reclassifying them in the financial statements for the year ended December 31, 2020 in accordance with CPC 23 and IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors as "Unallocated indirect cost" (see note 23). The effects of this reclassification are considered to be immaterial.

(**) The principal value on December 31, 2020 is composed of R$ 7,641 of loss for the sale of subsidiary Vulcabras Azaleia SE and as of December 31, 2019, the amount of R$ 4,431 is related to the ICMS expense on other products.

27 Financial income (loss)

	Consolidated		Parent company	
	12/31/2020	**12/31/2019**	**12/31/2020**	**12/31/2019**
Financial revenues				
Capital structure				
Revenue from investments	4,944	4,017	242	101
Inflation adjustments	-	36	-	-
Other	-	2	-	46
Subtotal	4,944	4,055	242	147
activities				
Interest	1,857	2,650	629	59
Discounts obtained	5,857	794	-	-
Adjustment to present value	-	10,179		
Other (*)	5,287	3,356	-	-
Subtotal	13,001	16,979	629	59
Exchange-rate changes (**)	28,400	12,518	-	1
Total financial revenue	**46,345**	**33,552**	**871**	**207**
Financial expenses				
Capital structure				
Interest	(14,585)	(3,219)	(763)	(316)
IOF	(120)	(351)	(7)	(1)
Other	(2,117)	(1,847)	-	(18)
Subtotal	(16,822)	(5,417)	(770)	(335)

	Consolidated		Parent company	
	12/31/2020	**12/31/2019**	**12/31/2020**	**12/31/2019**
activities				
Bank fees	(3,754)	(5,082)	(2)	(4)
Fee/commission sale card	(1,002)	(1,754)	-	-
Discounts granted	(1,585)	(2,795)	-	-
Other rates	(2,363)	(1,686)	-	-
Subtotal	(8,704)	(11,317)	(2)	(4)
Exchange-rate changes	(20,880)	(11,686)	-	(2)
Total financial expenses	**(46,406)**	**(28,420)**	**(772)**	**(341)**
Financial income (loss)	**(61)**	**5,132**	**99**	**(134)**

(*) The principal value refers to financial update of recovery of Pis/Cofins over ICMS R$ 1,658 (R$ 2,750 on December 31, 2019).

(**) The changes were due to the increase in the dollar exchange rate, which closed at R$ 5.20 as of December 31, 2020 (R$ 4.03 as of December 31, 2019).

28 Earnings per share

The calculation of basic earnings per share is made by dividing the income (loss) for the year, attributed to the holders of common shares of the Company, by the weighted average number of common shares free float during the year.

Diluted earnings per share are calculated by dividing the profit for the period attributable to holders of the Company’s common shares by the weighted average number of common shares that would be issued on the conversion of all potentially dilutive shares into their respective shares.

As of December 31, 2020, the Company had potential outstanding shares which could affect the dilution of the result per share under CPC 41/IAS 33 in the total amount of 2,260,000 potential shares. Of the total amount, 635,000 potential shares refer to the first grant of shares under the Stock Option Plan approved on January 16, 2018, and, 755,000 potential shares refer to the second grant of shares under the Stock Option Plan approved on May 05, 2019, and 870,000 potential shares are related to the third grant of shares of Stock Option plan that was approved on August 6, 2020.

As of December 31, 2019, the Company had 1,440,000 potential outstanding shares. Of the total amount, 660,000 (six hundred and sixty thousand) potential shares refer to the first grant of shares under the Stock Option Plan approved on January 16, 2018, and, 780,000 (seven hundred and eighty thousand) potential shares refer to the second grant of shares under the Stock Option Plan approved on May 05, 2019, which could affect the dilution of earnings per share according to CPC 41/IAS 33.

The table below presents the calculations of basic and diluted earnings per share.

	Consolidated Quantity of common shares	
	12/31/2020	**12/31/2019**
Profit or loss attributable to shareholders	31,554	143,065
Weighted basic average of outstanding shares in the year	245,756,346	245,756,346
Weighted basic average of outstanding shares in the year	248,016,346	247,196,346
Basic earnings per share (per thousand) - R$	0.1285	0.5821
Basic earnings per share (per thousand) - R$	0.1274	0.5788

29 Financial instruments and risk management

The main financial assets and liabilities of the Company and its subsidiaries refer to cash and cash equivalents, trade accounts receivable, trade accounts payable and loans and financing.

Financial risk framework and management

The Company and its subsidiaries manage financial risks by monitoring the financial positions of assets and liabilities, controlling exposure limits.

The Company and its subsidiaries are exposed to the following risks arising from financial instruments:

- Credit risk
- Market risk
- Interest rate risk
- Liquidity risk

The management of these instruments is done through operating strategies and internal controls, aimed at assuring liquidity, profitability and security. The control policy consists of permanent follow-up of the conditions engaged versus those in force in the market.

The risk management policies of the Company and its subsidiaries were established to identify and analyze the exposure, to set adequate limits and controls by monitoring risks and compliance with limits. Risk policies and systems are reviewed regularly to reflect changes in the market conditions and in the activities of the Company and its subsidiaries.

The assessments of financial instruments and risk management are explained below:

(i) Credit risk

Credit risk is the risk of the Company and its subsidiaries incurring financial losses due to a client, resulting from failure in complying with contract obligations. Such risk is mainly due to trade accounts receivable. The book values of financial assets and contract assets represent the maximum credit exposure.

The Company and its subsidiaries are exposed to the credit risk due to the possibility of not receiving trade accounts receivable or credits from financial institutions.

The Company and its subsidiaries' risk management adopts the following practices:

(i) Careful selection of financial institutions, which are considered as prime line by the market (largest asset management banks in Brazil), State banks or government development agencies, meaning that the credit risk posed by the financial institutions is extremely low and diversifying financial instruments used to invest the company's funds, which are invested in a basket of indexes consisting of the CDI rate, fixed rates or rates restated for inflation.

(ii) Analyzing credits granted to clients and establishing sales limits. There are no clients that individually represent more over 14.2% of total trade accounts receivable of the Company as of December 31, 2020 (6.7% on December 31, 2019); and

(iii) The Company's exposure to credit risk is influenced, mainly, by the individual characteristics of each client. However, management also considers the factors that may influence the credit risk of its client base, including the risk of non-payment of the industry and of the country in which the client operates.

The Company uses a provisioning matrix to measure the expected credit loss with individual trade accounts receivable:

December 31, 2020	**Policy applied**	**Gross book balance**	**Provision for estimated losses**
Stores	0.00%	13,520	-
Falling due	0.04%	525,940	210
Overdue (days):			
01–30	0.50%	4,173	21
31–60	10.00%	327	33
61–90	25.00%	263	66
>90	100.00%	31,433	31,433
Clients under court-ordered reorganization (with financial restructuring)	40.00%	14,865	5,952
Clients under court-ordered reorganization (without financial restructuring)	100.00%	4,406	4,406
Foreign market		29,706	8,408
		624,633	**50,529**

December 31, 2019	**Policy applied**	**Gross book balance**	**Provision for estimated losses**
Stores	0.00%	6,137	-
Falling due	0.04%	409,393	164
Overdue (days):			
01–30	0.50%	6,913	35
31–60	10.00%	859	86
61–90	25.00%	291	73
>90	100.00%	31,746	31,746
Clients under court-ordered reorganization (with financial restructuring)	40.00%	11,743	4,697
Clients under court-ordered reorganization (without financial restructuring)	100.00%	-	-
Foreign market		23,373	5,277
		490,455	**42,078**

The criteria used to calculate the loss matrix are disclosed in note 6c.

Loss rates are based on the actual credit loss experience seen in the previous accounting year. These rates were multiplied by the scale factors to reflect differences among economic conditions during the period in which historic data was collected, current conditions, and the Company's vision on economic conditions over receivables' expected lives.

(ii) Market risk

Market risk is the risk that alterations in market prices, such as foreign exchange, interest rates and prices of shares, will affect the Company's gains or the amount of its financial instruments. The objective of market risk management is to assess and control exposures to market risks, within acceptable parameters, and at the same time to optimize the return. The Company does not use derivatives to manage the market risk.

Foreign exchange risk

Considering the price risk on exports, which correspond to 4.16% of revenue from its subsidiaries as of December 31, 2020 (3.01% as of December 31, 2019), any volatility of the exchange rate represents, in fact, a price risk that can impair the results planned by Management.

Sensitivity analysis

The results of the Company and its subsidiaries are susceptible to significant changes, due to the effects of the volatility of the foreign exchange rate on the assets and liabilities indexed to foreign currencies, especially the USD, which ended the year as of December 31, 2020 with the positive change in 28.93% in relation to the last quotation as of December 31, 2019.

As a strategy to avoid and reduce the effects of foreign exchange fluctuations, Management tried to maintain a natural hedge in restricted assets, also pegged to exchange fluctuations. Management does not enter into financial instruments to eliminate its exposure to foreign exchange risks, which are as follows:

	Consolidated	
US dollar (US$ thousand)	**12/31/2020**	**12/31/2019**
Assets in foreign currency (a)	7,793	9,035
Liabilities in foreign currency (b)	(6,287)	(650)
Surplus determined (a-b)	1,506	8,385

In the light of the fluctuation risk exposure, the Company shows below three scenarios for foreign exchange fluctuations and the respective future outcome created. These are:

1. Probable scenario and that is adopted by the Company and its subsidiaries: dollar rate totaled R$ 5.1967 on December 31, 2020;

2. Possible scenario: as provided in the CVM Resolution, the scenario is built considering a 25% decrease in the US dollar rate amounting to R$ 3.8975; and

3. Remote scenario: also in accordance with CVM standard, in this scenario the US dollar rate is decreased by 50%, amounting to R$ 2.5984.

Chart demonstrating the foreign exchange sensitivity analysis - effect in come income (loss) as of December 31, 2020

Transaction	Risk	Probable scenario	Possible scenario	Remote scenario
	US$ 1,506 thousand	FX 5.1967	FX 3.8975	FX 2.5984
Financial income (loss)	US$ decr.	-	(1,956)	(3,912)

(iii) Interest rate risk

Sensitivity analysis

The Company's and its subsidiaries' results are exposed to fluctuations, not significant, due to the effects of the volatility of the DI-CETIP, TJLP (Long-term interest rate) and IPCA (National Amplified Consumer Price Index) rate on interest earning bank deposits and part of loans and financing linked to these rates.

	Consolidated		Consolidated	
	Book value 12/31/2020	**Fair value 12/31/2020**	**Book value 12/31/2019**	**Fair value 12/31/2019**
Assets in CDI	233,762	233,762	58,805	58,505
Liabilities in TJPL	2,276	2,365	2,374	2,413
Liabilities at IPCA	125,808	138,053	40,679	43,308
Liabilities in CDI	156,975	159,687	-	-

In order to comply with the CVM Resolution 550 of October 17, 2008, given the exposure to the risk of changes in the indexes used in interest earning bank deposits and loans, the Company presents below scenarios for the changes in rates and the respective future results that would be generated. These are:

(i) Probable scenario adopted by the Company and its subsidiaries, with a DI-CETIP rate of 1.90% p.a. and TJLP of 4.55% p.a. and IPCA of 4.52% p.a.;

(ii) Possible scenario, including an increase or decrease of 25% on rates;

(iii) Remote scenario, including an increase or decrease of 50% on rates.

Statement of changes in rates as of December 31, 2020 is as follows:

Operation	Risk	Probable scenario	Possible scenario - 25%	Remote scenario - 50%
		4.55% TJLP	5.69% TJLP	6.83% TJLP
Loans – TJLP	TJLP incr.	R$ 0	R$ 26	R$ 52
		4.52% IPCA	5.65% IPCA	6.78% IPCA
Loans at IPCA	IPCA incr.	R$ 0	R$ 1,422	R$ 2,843
		1.90% CDI	2.38% CDI	2.85% CDI
Loans in CDI	CDI incr.	R$ 0	R$ 753	R$ 1,491
		1.90% CDI	1.43% CDI	0.95% CDI
Investments in CDI	CDI decr.	R$ 0	R$ (1,099)	R$ (2,221)

(iv) Liquidity risk

Liquidity risk is the risk of the Company encountering difficulties in performing the obligations associated with its financial liabilities that are settled with cash payments or with another financial asset. The Company's aim when managing the liquidity, is to guarantee, as much as possible, that it will have sufficient liquidity to perform its obligations upon maturity, under normal and stress conditions, without causing unacceptable losses or with a risk of sullying the Company's reputation.

The Company and its subsidiaries monitor their funds liquidity risk through cash monetary policies to avoid a mismatch between accounts receivable and accounts payable.

In addition, the Company and its subsidiaries maintain balances of interest earning bank deposits with daily liquidity, which may be redeemed at any time to cover possible mismatches between maturity dates of their contract obligations and cash generation.

The scheduled payments of long-term installments of loans and financing are presented below:

	12/31/2020	
Maturity	**Amount**	**%**
2022	97,119	51%
2023	55,984	29%
2024	14,300	8%
2025	13,744	7%
2026	8,854	5%
Total	**190,001**	**100%**

Breakdown of balances

The estimated realization values of the financial assets and liabilities of the Company and its subsidiaries were determined through information available in the market and appropriate valuation methodologies. However, considerable judgment was required in the interpretation of the market data to estimate the most adequate realization value. Consequently, the estimates below do not necessarily indicate the values that could be realized in the current exchange market. The use of different market methodologies may have a material effect on the estimated realizable value.

The Management of these instruments is done through operating strategies, aimed at liquidity, profitability and security. The control policy consists of permanent follow-up of the rates engaged versus those in force in the market. The Company and its subsidiaries do not invest in derivatives or any other risk assets on a speculative basis.

In compliance with CVM Instruction 475/08, the book balances and the fair value of financial instruments included in balance sheets as of December 31, 2020 and December 31, 2019 are shown below:

		Consolidated			
		12/31/2020		**12/31/2019**	
Description	**Rating**	**Book balance**	**Fair value**	**Book balance**	**Fair value**
Cash and cash equivalents	Financial assets at amortized cost	158,552	158,552	62,164	62,164
Interest earning bank deposits					
CDB/Investment Fund	Financial assets at fair value through profit or loss	90,049	90,049	2,529	2,529
Share investment funds	Financial assets at fair value through other comprehensive income (FVTOCI)	458	458	294	294
Accounts receivable	Financial assets at amortized cost	574,104	574,104	448,377	448,377
Other accounts receivable	Financial assets at amortized cost	11,266	11,266	11,748	11,748
Loans and financing:					
In domestic currency	Other financial liabilities	285,058	300,104	43,053	45,721
In foreign currency	Other financial liabilities	26,571	26,727	-	-
Suppliers	Other financial liabilities	62,457	62,457	40,993	40,993
Loan with related parties	Other financial liabilities	17,632	17,632	16,930	16,930

		Parent company			
		12/31/2020		**12/31/2019**	
Description	**Rating**	**Book balance**	**Fair value**	**Book balance**	**Fair value**
Cash and cash equivalents	Financial assets at amortized cost	18	18	3,606	3,606
Interest earning bank deposits					
CDB/Investment Fund	Financial assets at fair value through profit or loss	80,951	80,951	2	2
Loans with related parties	Financial assets at amortized cost	120,602	120,602	-	-
Other accounts receivable	Financial assets at amortized cost	1,538	1,538	1,615	1,615
Suppliers	Other financial liabilities	289	289	1,088	1,088
Loans with related parties	Other financial liabilities	197,763	197,763	-	-

(v) Fair value hierarchy

	Consolidated				Parent company			
	12/31/2020		12/31/2019		12/31/2020		12/31/2019	
Description	**Level 1**	**Level 2**	**Level 1**	**Level 2**	**Level 1**	**Level 2**	**Level 1**	**Level 2**
Interest earning bank deposits								
Post-fixed CDB	-	85,748	-	-	-	80,949	-	-
Investment fund	-	4,301	-	2,529	-	2	-	2
Share investment funds	458	-	294	-	-	-	-	-
Loans with related parties	-	-	-	-	-	120,602	-	-
Loans and financing	-	326,831	-	-	-	-	-	-
Loans with related parties	-	17,632	-	16,930	-	197,763	-	-

- **Level 1 -** Prices charged (unadjusted) in active markets for identical assets or liabilities;
- **Level 2 -** different inputs of the prices negotiated in active markets included at Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices);
- **Level 3 -** inputs for the asset or liability that are not based on observable market variables (unobservable inputs).

(vi) Criteria, assumptions and limitations used in the calculation of fair value

Interest earning bank deposits
For interest earning bank deposits, the fair value against the income (loss) was calculated based on the market quotations of these securities and are stable considering investment rates and terms. The interest earning bank deposits are remunerated at a percentage of DI-CETIP and are restated at December 31, 2020 (see Note 5).

Accounts receivable
Trade accounts receivable are recorded at the amount billed, and include the respective direct taxes for which the Company and its subsidiaries are responsible. The estimated impairment losses were formed at an amount considered adequate by the management to cover any losses arising on collection of credits.

Loans and financing
The amount of loans and financing calculated at December 31, 2020 are measured at amortized cost using the effective interest method, and are recorded at their contractual values. We currently found interest rates applicable to these instruments identical to the contracts that were signed, given the objective of the financing, time frames and guarantees submitted. The valuation model considers the present value of the payment expected, discounted by a risk-adjusted discount rate.

Suppliers
Trade accounts payable derive directly from the commercial operations of the Company and its subsidiaries, are stated at their original values, subject to exchange and monetary restatement, when applicable, up to the balance sheet date.

Limitations
The fair value of instruments was estimated on the balance sheet date, based on “Relevant market information”. Changes in the assumptions may significantly affect the presented estimates.

(vii) Capital management
The capital management of the Company and its subsidiaries aims to ensure that a strong credit rating is maintained before institutions, as well as a solid capital relationship, so as to support the business of the Company and leverage shareholders’ value.

The Company and its subsidiaries include within its net debt structure: loans and financing less cash, cash equivalents and interest earning bank deposits.

	Consolidated	
	12/31/2020	**12/31/2019**
Loans and financing	(311,629)	(43,053)
Leases	(18,530)	(15,845)
Cash and cash equivalents	158,552	62,164
Interest earning bank deposits	90,543	2,823
Net debt	**(81,064)**	**6,089**
Equity	**1,125,394**	**1,087,428**

30 Insurance coverage
The Company and its subsidiaries adopt the policy of contracting insurance coverage for properties subject to risks in amounts considered sufficient to cover any casualties, considering the nature of their activity.

The risk assumptions adopted are out of the scope of the auditing of financial statements, and therefore were not examined by our independent auditors.

Coverage amounts as of December 31, 2020 are summarized as follows:

Corporate insurance in reais (R$)		
Object	**Risk covered**	**Amount of coverage**
Equity	Fire, Windstorms, Electrical Damages, Machine Breakdown, Theft, Flooding, Electronic Equipment.	195,000
Loss of profits	Fixed expenses (P.I 3 months)	60,000
D&O	Management civil general liability	20,000
General civil responsibility	General liability	2,000
Light vehicles	Property, body damages, pain and suffering to third parties	16,250
Heavy vehicles	Property, body damages, pain and suffering to third parties	11,200
International transport - Imports	Limit per shipment - Goods / Raw materials	7,795
	Total corporate insurance	**312,245**

31 Governmental grants and assistance

a. Federal incentives

- **IRPJ REDUCTION -**Refer to the right to 75% reduction of the Income Tax and Surtax, calculated based on the operating profit in accordance with article 1 of the Provisional Measure 2199-14 of August 24, 2001, as per the criteria established and also in compliance with the tax incentive regulation. Are considered as onerous conditions met the projects for total modernization currently in areas of the Northeast Development Agency - SUDENE. The beneficiaries of the incentive of 75% reduction of the income tax are the projects located in the states of Ceará, Bahia and Sergipe.

b. State incentives

(i) Ceará

For footwear

- **PROVIN -** This is an incentive program for the industrial development fund of the State of Ceará (FDI), which consists in the deferral of 99% of the ICMS levied on company manufacturing of footwear. On the amount of each installment of the benefit, 1% will be paid in a single installment, with maturity on the last day of the month, and the amount will be adjusted after 36 months, from the disbursement date to the maturity date, restated at TJLP.

For apparel

- **PROVIN -** This is an incentive program for the industrial development fund of the State of Ceará (FDI), which consists in the deferral of 75% of the ICMS levied on company manufacturing of apparel. On the amount of each installment of the benefit, 25% will be paid in a single installment, with maturity on the last day of the month, and the amount will be adjusted after 36 months, from the disbursement date to the maturity date, restated at TJLP.

Additional incentives
In addition to PROVIN shoes and apparel, there is also the deferral of ICMS on imports of raw materials, machinery, equipment, parts and pieces that do not have similar item in the State of Ceará, as well as the difference of rates on purchases of capital goods.

- **PCDM –** It is an incentive program to distribution business centers (PCDM), which consists of the reduction by 75% of the debt balance of the ICMS monthly calculated on interstate shipping activities. The subject of this instrument does not include the ICMS withheld of third parties by the company, in view of the tax replacement regime.

Additional incentives
It has as additional to PCDM the deferral of the ICMS levied: In import of foreign goods for subsequent shipment, import from abroad and other states, of goods to comprise fixed assets.

(ii) Bahia

- **PROBAHIA -** Refers to the development program for the State of Bahia, aiming at diversifying and stimulating the transformation of the industrial processes in the state. The incentive is the deferral of ICMS on the total debits calculated on the shipment of goods, where a presumed credit of 99% of the amount due is calculated. Its payment consists in 1% of the debit balance that should be paid in the month subsequent to the ICMS calculation.

Additional incentives
In addition to PROBAHIA, there is also the deferral of ICMS on imports of raw materials, machinery, equipment, parts, as well as the difference of rates on purchases of capital goods.

	Statement of Government grants		
Subsidiary	**State incentive**	**%**	**Maturity date**
Vulcabras Azaleia CE, Calç. e Art. Esp. S.A.	Provin Calçados	99%	Aug 2031
Vulcabras Azaleia CE Calç. e Art. Esp. S.A.	Provin Confecções	75%	Jun 2022
Vulcabras Azaleia BA Calç. e Art. Esp. S.A.	Probahia	99%	Jul 2027
Vulcabras Distr. Art. Esp. Ltda.	PCDM	75%	Dec 2022

	Statement of Government grants		
Subsidiary	**Federal incentive**	**%**	**Maturity date**
Vulcabras Azaleia CE, Calç. e Art. Esp. S.A.	IRPJ decr.	75%	Dec 2025
Vulcabras Azaleia BA Calç. e Art. Esp. S.A.	IRPJ decr.	75%	Dec 2026

c. Consolidated

Considering that these incentives were recognized directly in profit (loss) of subsidiaries, as a consequence, they were recognized in the Company’s profit (loss) through the calculation of equity in net income of subsidiaries, whose effects are shown below:

ICMS			**Equity in net income of subsidiaries in parent company**	
Tax incentive recorded in income (loss) of subsidiaries	**Consolidated tax incentive**	**% Interest**	**12/31/2020**	**12/31/2019**
Vulcabras Azaleia CE, Calçados e Artigos Esportivos S.A.	70,103	99.99%	70,096	75,643
Vulcabras Distr. Art. Esp. Ltda.	3,677	0.22%	8	1
Vulcabras Azaleia BA, Calçados e Artigos Esportivos S.A.	46,265	100.00%	46,265	46,853
Vulcabras Azaleia SE, Calçados e Artigos Esportivos Ltda.	-	-	-	6,640
	120,045		116,369	129,137

Reintegra			**Equity in net income of subsidiaries in parent company**	
Tax incentive recorded in income (loss) of subsidiaries	**Consolidated tax incentive**	**% Interest**	**12/31/2020**	**12/31/2019**
Vulcabras Azaleia CE, Calçados e Artigos Esportivos S.A.	27	99.99%	27	17
Vulcabras Azaleia BA, Calçados e Artigos Esportivos S.A.	34	100.00%	34	19
Vulcabras Azaleia SE, Calçados e Artigos Esportivos Ltda.	-	-	-	14
	61		61	50

32 Product and geographic area information

The information of net sales in the domestic and foreign markets, by region, was prepared based on the country of origin of the revenue, that is, based on the sales made by its subsidiaries in Brazil and through foreign subsidiaries, and are as follows:

	12/31/2020	**12/31/2019**
Net sales		
Athletic shoes	856,518	1,008,208
Women's shoes	142,732	195,596
Other footwear and others	86,724	68,835
Apparel	93,253	87,346
	1,179,227	**1,359,985**
Domestic market	1,078,060	1,251,236
Foreign market	101,167	108,749
	1,179,227	**1,359,985**

The non-current assets of each geographic region are shown below:

	Consolidated	
	12/31/2020	**12/31/2019**
Noncurrent assets in the domestic and foreign markets as of:		
Brazil	547,935	542,715
Other countries	20,434	18,211
Total	**568,369**	**560,926**

33 Subsequent events

Mizuno Operations

On January 29, 2021, the first phase of the transaction closing took place, involving the merging by its subsidiaries Vulcabras Azaleia – CE, Calçados e Artigos Esportivos S.A. and Vulcabras Distribuidora de Artigos Esportivos Ltda. (“Subsidiaries”) of the Mizuno brand operations in Brazil, under the terms of the agreements signed with Alpargatas S.A. (“Alpargatas”) and Mizuno Kabushiki Kaisha d/b/a Mizuno Corporation, with approval of CADE.

In common agreement, with the purpose of providing a more efficient transition of the Operation and avoiding any disruption, the parties amended the agreement on January 29, 2021 to establish that the conclusion of the Operation will occur in two phases:

(i) at the first closing, held on the present date ("First Closing"), (a) all the shares held by Alpargatas were transferred in a newly incorporated company, which holds the assets and employees of the Operation that are not related to Mizuno stores, (b) the assumption by the Subsidiaries of the contractual relationship with Mizuno Corporation, and (c) the other acts referring to the transaction closing, as originally provided for in the agreement, except for the acts to be performed in the Second Closing, as defined below; and

(ii) In the second closing, which should take place up to March 31, 2021 ("Second closing"), Alpargatas will transfer to the Company: (a) the full equity interest it holds in a new company, incorporated as a vehicle for the transfer of assets and employees related to Mizuno stores and (b) the Mizuno assets related to the e-commerce operation.

According to the definitive documents of the Operation for a period not yet defined, Alpargatas S.A. will continue manufacturing and supplying, exclusively to the Subsidiaries, Mizuno products, until their manufacture is assumed by the Subsidiaries.

The estimated current value is of approximately R$ 31,064, and any additional adjustments related to stores may be applied until the second closing. The Company already recognized a gain of R$ 1,596 from the investment record in January 2021.

As of January 29, 2021, the Master Distributor and License Agreement signed between the Company and Mizuno Corporation became effective, through which the Company will (i) develop and produce products of the "Mizuno" brand, including footwear, clothing and accessories, and (ii) distribute "Mizuno" brand products in national territory until December 2033.

After the second and last closing of the Operation, the Subsidiaries will start selling the products of the "Mizuno" brand, directly to the consumer, through own stores and/or through the electronic sales channel (www.mizuno.com.br).

The completion of this operation is in line with the Company's strategic planning to focus its efforts on the development, manufacturing and sale of sporting goods and products.

* * *

Members of the Board of Directors

Pedro Grendene Bartelle President	André de Camargo Bartelle 1st Vice-president
Pedro Bartelle 2nd Vice-president	Hector Nunez Independent Board Member

Roberto Faldini
Independent Board Member

Composition of Tax Council

Marcello Joaquim Pacheco
Chairman of the Board of Directors

Benedito Alfredo Baddini Blanc
Board Member

Célio de Melo Almada Neto
Board Member

Members of the Executive Board

Pedro Bartelle
President

Wagner Dantas da Silva
Administrative and Financial Director

Flávio de Carvalho Bento
Industrial Director

Rafael Carqueijo Gouveia
CEO

Rodrigo Miceli Piazer
Purchasing Director

Evandro Saluar Kollet
Corporate Director of Product Development and Technology

Márcio Kremer Callage
Marketing Director

Investor Relations Director

Wagner Dantas da Silva

Technician Responsible

Manoel Damião da Silveira Neto
Accountant CRC 1RJ052266/O-2 “S”-SP